A Happy New Year to All

The COMMERCIAL and FINANCIAL CHRONICLE

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Compulsory Training—Wasteful Act of War

By ROBERT M. HUTCHINS*
Chancellor of the University of Chicago

Prominent educator denounces universal military training both as security and as educational program. Says universal training, instead of preventing a war, would be "a ridiculous and wasteful act of war."

Universal military training would be useful if it could prevent another war. Large numbers of men who have gone through squads right under the auspices of obsolescent officers are not likely to help us win a war. They are not necessary to help us occupy a country the cities of which have been destroyed by us. That can be done by forces recruited for the purpose at the time — such forces would not have to be large or particularly skilled. But does anybody imagine that

Robert M. Hutchins

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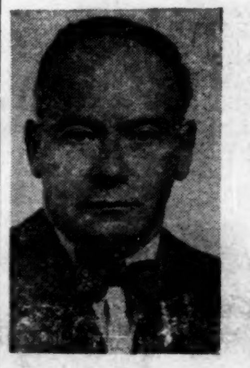
*An address by Chancellor Hutchins at a public rally sponsored by the National Council for the Prevention of War, Washington, D. C., Dec. 14, 1947.

The Future of Easy Money

By DR. WALTER SULZBACH

Dr. Sulzbach asserts it will be impossible for money rates to remain abnormally low over long term, since artificially-induced easy money is the result of inflation which itself subsequently produces high interest rates. Points to easy money's breakdown in France and its hard-sledding in England. Calls on our monetary authorities to acknowledge frankly and promptly that natural interest rates are bound to prevail.

There are several kinds of economic forecasts. Not all of them should be taken seriously. There were for instance the forecasts that the end of the war would usher in a wave of unemployment; that 1947 would be a year of mild "recession"; that in 1947 prices in general would fall moderately but agricultural prices substantially. Forecasts of that kind are based on the assumption that certain prevailing conditions are "abnormal" and therefore set for a reversal. Those forecasts mostly fail to materialize. The reason is that the greater part of the innumerable factors which mould the future, escape our knowledge.



Walter Sulzbach

Forecasts which envisage a change in the trend of the business cycle are mostly made six months ahead. When the forecast is made during the summer its author describes what will happen during the following winter. When it is made in the spring it usually aims at the next fall, and so forth. The forecasters don't have the courage to predict what will happen in a week or two. On the other hand, economic prophecies covering the more remote future,

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Inflation and the Stock Market

By MELCHIOR PALYI
Professor, University of Wisconsin

Denying stock market is barometer of business, Dr. Palyi cites developments preceding 1929 crash. Stresses emotional mass psychology, as indicating state of mind in financial community. Says stagnation in stock market is due to depression fears, but foresees a boom if inflation grows. Holds unbalanced corporate capital structures portend much equity financing.

One of the oldest and most respectable myths in economic textbooks is the lovely story about the unerring foresight displayed by the stock market. It is supposed to be a barometer that predicts the economic weather, thanks to the collective wisdom of the thousands of operators whose independent and contradictory judgments average out by some mysterious automatism into clear vistas of the forthcoming trend. As if wisdom and foresight were matters of collective behavior and not of individual ability! But there are few better entrenched dogmas in Economics (as it is being understood popularly) on which everybody seems to have agreed, even the extreme left. Within the framework of the capitalistic system, at any rate, stock exchange quotations as a whole are supposed to represent the ulti-

Dr. Melchior Palyi

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EDITORIAL

As We See It

Running to Emptyings

Considerably less than two years ago Congress passed and the President signed a measure known as the Employment Act of 1946. The bill originally introduced was extensively modified—some said emasculated—in its course through the legislative mill. Its meaning when it finally emerged was and is still not altogether easy to define, but it has been widely heralded as placing the Federal Government on record as accepting, even arrogating unto itself, responsibility for "full employment," a goal then by many thought to embody very nearly all that was great and good in economic life.

Last week the Council of Economic Advisers, created by and under this act to tell the President (and presumably Congress and the country) how all these good things are to be achieved or obtained, blithely and blandly remarked in its second annual report that "we were astonished to find, after the country had reached the idealized figures of 60,000,000 jobs, that the volume of production still was disappointing. And with production shortages, we also found that abundant monetary purchasing power confronted us

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Outlook For 1948

By RAGNAR D. NAESS*
Partner, Naess & Cummings

Investment analyst predicts first half of 1948 will set new high records in national output and consumption. Looks also for higher commodity price level, but holds current upswing in consumers' nondurable goods production will not last through year. Sees further distortion of wage-price relationship with new round of wage demands. Forecasts continued high government spending and budget surplus.

We are entering the year 1948 under most auspicious circumstances. Many lines of activity are making new peacetime records. Our gross national product is now running at a rate of about a quarter of a trillion dollars a year, and personal income of individuals at a rate of $20[illegible] billion a year.


Ragnar D. Naess

We have come through the year 1947 without any serious setback. The unsettlment in the soft goods and service industries that occurred in the first six months of the year, accompanied by price declines and inventory liquidation, did not spread to our capital goods industries which were strongly supported by huge unfilled orders. Neither did the unsettlement involve the consumers' durable goods industries to any extent. These were strongly supported by the combination of a huge backlog of deferred demand and huge savings in the hands of the public.

Looking ahead into 1948 it is relatively easy to conclude that the first six months of the year and probably the year as a whole will set new high records in gross national product and in personal consumption expenditures. Similarly, it is likely that the volume of production as measured by the Federal Reserve Board Index will reach a new peacetime high for the first six months at least, and that for the year as a whole this index may be as high if not higher than it was in 1947. The commodity price level will almost surely average higher in 1948 than in 1947 and further price increases, particularly in manufactured goods and in retail stores, seem indicated. The cost of living is bound to advance further in the light of these price increases and because of further increases in rent and other slow-moving items in the consumer budget.

In the light of this prospect for 1948 it would seem that everyone should feel happy and contented and view the situation with confidence. The business community is reaping exceptional benefits in the terms of profits, labor is enjoying the highest employment and weekly pay on record and the Administration in Washington can look forward to a favorable economic backdrop during an election year. This happy combination of circumstances, however does not at all seem to result in the contentment and confidence one would expect. On the contrary, it is hard to say who seems the most worried and fearful over the outlook — the government business or labor. This seems to me to be one of the fundamental factors in the present situation different from most past periods of prosperity and boom.

The wonderful current and prospective business statistics do not tell the whole story about our economic situation. In fact, they tell only a small part of the story. One can tell the real story only by going behind the scene and

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*An address by Mr. Naess before the Luncheon Meeting of the American Statistical Association, New York City, Dec. 30, 1947.

Inflation and the Banking Position

By PHILIPP H. LOHMAN, PH. D.*
Chairman, Department of Commerce & Economics, University of Vermont

Dr. Lohman reviews banking reform proposals for curbing inflation, and outlines dangers of increasing reserve requirements as recommended by Chairman Eccles of Federal Reserve Board. Holds recommendation is road to 100% reserves and to socialization of bank credit. Refutes idea of "100% Reserve," and holds unfavorable banking structure exists, particularly inadequate capital in relation to deposits and improperly managed assets. Urges simplification of bank supervision.

The last weeks of 1947 are turbulent ones for the banker. The shadows which these weeks project into the immediate future are even more portentous. Still but a handful of the men and women guiding the destiny of the 14,602 commercial banks in the United States recognize the threat which faces private banking in the United States. Most of the bankers, however, remind one of our unpreparedness on the eve of Pearl Harbor.


P. H. Lohman

It was but a few weeks ago that the three Federal mentors of the country's banks issued a drastic warning to bankers to use "extreme caution" in their lending policies. The members of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency and the Federal Deposit Insurance Corp. as well as the executive committee of the National Association of Supervisors of State Banks joined in this warning. This statement deserves analysis, for it was soon to be followed by legislative proposals. The authors of the warning utterance felt that: (1) expansion of bank credit at this time definitely was an inflationary factor; and (2) banks should curtail loans for speculation in real estate, commodities or securities and consumer credit should not be overextended.

No doubt, the reference to consumer credit harked back to President Truman's recent proposal for permanent consumer credit control. Incidentally, I remember back in 1940 when an assistant director of research and statistics of the Federal Reserve wound up a comment upon the growing popularity of consumer loans with commercial banks by saying: "The broad expansions that have occurred in the past two decades in the volume of consumer credit means that there is a growing area of the credit structure that is less amenable to Federal Reserve policies . . ." You all know what happened. The American Bankers Association, the American Industrial Bankers Association, the Retail Credit Institute of America and others immediately fought such consumer credit control tooth and nail. Who knows whether the bankers will not yet have to bite into the sour apple of assenting to the restriction of bank portfolios to consumer credit paper only under observation of the down-payment and amortization standards established by the Board of Governors of the Federal Reserve Systems.

Mr. Eccles' Views and Proposals

The reasoning of Mr. Eccles became clear one day after the quad-

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*An address by Dr. Lohman at the Vermont Conference of the National Association of Bank Auditors and Comptrollers, Vermont State Bankers Association, Burlington, Vt., Dec. 12, 1947.

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Maine Dealers' Association Takes Exception to SEC Making Public Broker-Dealer Financial Status

Holds data should not be used commercially. "Chronicle" hopes other associations show same interest in welfare of their members.

In addition to receiving copies of communications that dealers wrote to their Senators and Congressmen, the Editor of the "Chronicle" is glad to give below a letter the Directors of the Maine Investment Dealers Association voted be sent to the Securities and Exchange Commission protesting against making dealer-broker financial statements available for publication:

Maine Investment Dealers Association
Portland, Maine

26 December, 1947

Securities and Exchange Commission
Philadelphia 3, Pa.

Gentlemen:

At a meeting of the Directors of the Maine Investment Dealers Association it was voted to call your attention to the editorial appearing in the December 11th issue of the "Commercial & Financial Chronicle," a copy of which is here attached.

We feel that this protest in the "Chronicle" succinctly contains the objections that we, as an association of dealers, have to the publication in any magazine of the capitalization of dealers. We do not feel that information of this nature should be used commercially.

Very truly yours,
Maine Investment Dealers Association
By: Carl K. Ross, Secretary

912 Bank of Commerce Building
Portland 3, Maine

The Directors of the Maine Investment Dealers Association are to be congratulated on being so conscious of their obligation to their members and to the American way of life. The "Chronicle" hopes other associations, big and little, in the investment field will follow suit.

The "Chronicle" hopes, too, that every dealer will immediately write to the SEC requesting that information contained in financial statements filed with the Commission be kept confidential. He should also write to his Senator and Congressman asking that they use their influence to compel the SEC to do so.

Every dealer also owes it to himself to act as a spearhead in his own immediate circle of a movement to shear the Commission of many of its inquisitorial powers.

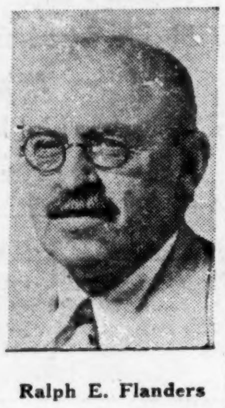
The interest of capitalism is not well served when policies that are detrimental to all but the wealthy are advocated or condoned. And don't the SEC left-wingers know this!

Economics Collides with Ethics

By HON. RALPH E. FLANDERS*
U. S. Senator from Vermont

Senator Flanders traces injection of ethical principles into economics, and points out its failure under the New Deal. Reviews recent inflationary trend and lays it largely to full employment, as indicated by success of John L. Lewis in obtaining excessive wage increases for miners. Says wage advances have been inequitable and some have gained higher wages at expense of others. Calls for self-discipline for both organized labor and business. Holds most serious problem is inadequate supply and high prices of food, and foresees need for meat rationing. Concludes no conflict exists between economics and ethics, since ethics is only long-range self interest.

The title chosen for this talk is not perhaps in complete accord with the dissertation which follows. A fondness for alliteration influenced in some degree the choice of words. Yet the subject will be near enough to the title so that the latter will not be completely inappropriate.



Ralph E. Flanders

A broader subject would be to explore the relationships between science and ethics. This is indeed a fruitful field for exploration and leads one to fundamental considerations of religious doctrine as well as of science. Much thinking needs to be done in this field, but we are not going to dig so deeply into fundamentals tonight.

Let us begin by asking whether economics is a science. I suspect that to be an old question and that my thoughts on that will be somewhat amateurish, but since they are pertinent to my subject a little time must be given to this matter.

Science is based on a broad observation of happenings in a given field. Then underlying principles are inductively derived from these observations or previously suggested principles are compared with the reality of the observations. Instructive hypotheses thus derived are tested in practice both on a laboratory scale and in operations of greater magnitude.

An essential part of rigidly scientific investigation is, of course, carefully planned experiment in which the variables affecting the phenomenon under discussion are altered one by one, keeping the remainder constant. The effect of the controlling variables thus isolated can be put into a formula, or stated in some other practical form for practical use.

Does this procedure apply to economics, which concerns itself with the production and distribution of goods and services in human society? We can observe instances and form theories from our observations as to how the members of society as a whole act and react in this process of producing and distributing goods and services. How sure and definite are our results? How accurately can they be applied to the controlling of a given situation in which there seem to be arising dislocations and obstructions to the free flow of production and distribution of wealth? In this one of the social sciences as applied to the practical management of our affairs do we have anything like the surety that we do in the field of physical sciences?

Limitations of Economic Research

Evidently we do not. We have no research laboratory. It is impossible to group a few persons within a closed wall and experiment on them as we can with physical materials and forces. Our laboratory is society as a whole and that means, in its furthermost reaches, the whole population of the earth itself, of which we may now say that scarcely any part of it does not affect the rest of it or is unaffected by it. It is, of course, true that within a given nation a certain small degree of isolation may be reached. There are barriers of language, of law, of transportation, of customs duties, and the like which permit the inhabitants of a nation to be experimented with to some degree as a unit, but still not in strict isolation. The social sciences have in fact been enriched by the experimentation on the people in the United States undertaken by the New Deal in the period from 1933 until the second World War. The main objective was to find means for reducing mass unemployment. The results of those experiments were largely negative, yet negative results are extremely important.

Other things were learned as a result of our economic controls during the World War itself, but they are of limited application to peacetime living.

So far, then, as concerns any endeavor to construct economics as a pure science we must resign ourselves to the facts that our laboratory is unmanageably large, the variable factors of any given problem cannot be isolated, and we must content ourselves with less scientific and more judgmatical deductions as to the causes of change, most of which are beyond our control.

We have the final difficulty that this social science is primarily a study of human behavior. It is true that it is assisted by statistical information whose gathering and interpretation may be rigidly scientific. Yet the final subject matter is human behavior, and until the springs of human action become subject to detailed and rigorous analysis, we cannot expect economics to provide effective scientific controls.

Throughout its history this social science has shown itself responsive to social conditions of which it is itself a part. The mainly agricultural economy of the eighteenth and preceding centuries resulted in one group of theories and practices. With the Industrial Revolution and England as the world's workshop, there resulted another set of principles and practices. Furthermore, these preceding bodies of economic theory supposed a peaceful world. For a time at least that condition has passed, and we must expect to proceed on modified lines if we are to gain any useful control of the world in which we live. Ours is not a peaceful world and the difficulties of organizing it on a peaceful basis seems to increase rather than diminish.

It may well be that there is a hard residual deposit of enduring science which remains throughout the flux of changing circumstance. May it not also be that this eroded core may be of less practical importance than is the

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*An address by Sen. Flanders before the American Economic Association, Chicago, Ill., Dec. 28, 1947.

Inflation and Common Stock Prices

By A. T. OSTRANDER

Mr. Ostrander contends rising prices can benefit common stocks only in transition period, and even in this period, the benefit may not be general. In long-term outlook, holds there is no possible foundation for expecting increased profit rate on invested capital because of higher capital replacement costs, larger additional plant investment, and technological obsolescence of older capital equipment. Foresees rapid enlargement of production capacity due to high prices.

How frequently one hears the opinion expressed by seemingly reliable sources that common stocks are the cheapest thing existing in this period of rapidly rising prices! It is implied that because the prices of all other items have risen by an expressed degree since 1939, a similar rise for stock prices can be anticipated, and that the wonder is that there can be anyone who fails to appreciate this and invest his money accordingly.

A. T. Ostrander

As a matter of hard economic reality there are important fallacies in this opinion, when applied to the long term upon which the investor's appraisal must be based He sees any extended rise in stock values as dependent upon the reinvestment of retained earnings or an increase in the profit rate on invested assets. The amount of the reinvestment of earnings is dependent upon the size of the earnings themselves, since the proportion of annual earnings retained for reinvestment has a 25 year norm of 3.2% among industrial companies whose shares are listed on the New York Stock Exchange. Therefore, it must be that this opinion is founded primarily upon the prospect of a long term increase in the profit rate on invested capital.

Shifts in Profits and Rising Prices

Great shifts of the price level can materially influence this rate during the course of the transitions, whether they be of rising or falling prices, but it is not the period of transition with its effect upon current profits that is under consideration. Nor is it the possibility of a temporary decline in profits that may result from a violent readjustment of the price level as excesses are corrected and the new equilibrium sought subsequent to the termination of the current rise. Both the rise and the correction of its excesses are transitory, as is their effect upon the profit rate. What is under consideration is the probable rate of profit on invested capital that may accrue from a new equilibrium of the price level at an assumed position very much higher than existed prior to World War II.

The present is a time of surging inflation, the outcome of an abnormal demand laid upon a production structure that in the short term is not equipped to supply it. This condition cannot be projected indefinitely, for there are several correctives. One is the enlargement of the production structure with all possible haste. Another is the exhaustion of the most immediate and insistent of the demands. And a third is the rapid price rise itself, which does so much to bring the supply and demand into balance at the new price level.

While prices are actively rising, enlarged profits are an unavoidable by-product, achieved as much by the random chance of being in business as by astuteness or efficiency of management. Two things in particular are favorable, the accidental gains on inventory, and the ability to sell all goods produced without exerting any great effort to do so. Both are temporary.

The ability to sell a full production outputs exerts a tremendous influence on profits, and is the outcome of an urgent demand, bidding for all goods produced while seeking still more. Business mistakes are easily covered up, inefficiencies slip in and costs of all kinds are permitted to creep higher and higher by management, whose resistence is weakened through peak sales and splendid profits. In the final outcome, costs keep pace with rising sales prices, while the break-even point is pushed so high as to require the continued high volume if operating losses are to be avoided.

It is this same relationship between the supply and demand for goods that pushes up prices and at the same time assures the full volume output. When goods are in sufficient supply to satisfy the demand at a price level no longer rising, a full volume output may or may not continue for a further extended time. But it can readily be foreseen that for each individual firm or industry there will be no assurance of its continued full volume output, and that competition for sales will become increasingly keen. It is at this point in the competitive struggle for survival that profits will again become the residual element between the high selling-price level and the equally high cost level, and with the maintenance of the break-even point in volume output presenting constantly greater difficulty.

Effect of Price Equilibrium

An astute investor is aware of these economic relationships and more. Once prices have settled around a new equilibrium at a higher level, he views the consequence to the profit rate as bearing both a long term aspect and an intermediate term aspect.

In the long term there is no possible foundation for the expect-

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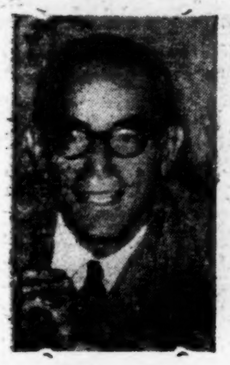
Observations . . . .

By A. WILFRED MAY

Determining the Real Worth of Common Stocks

In outlining our affirmative concept of a genuine investment attitude in this column last week, we stated we would follow with specific suggestions for appraisal procedure. Our approach follows the estimation in a realistic businesslike manner of the likely return from an individual issue considered as an interest in a business property, as distinguished from the concept of a general price level fluctuating with the psychological elements governing the "liquid" market place.



A. Wilfred May

Under our space limitations we can do no more than indicate in a general way the method which such hard-boiled businesslike appraisal would follow. And under any circumstances we believe that common-sense flexibility, rather than hard-and-fast mathematical formulae, should govern such application of genuine investing principles.

As a basis for examining the worth of a particular common stock, we are of course assuming that our portfolio's general balance and diversification needs make its potential acquisition appropriate.

* * *

Let us at random consider a typical stock in each of the categories of growth companies, of businesses whose profits have sharply fluctuated with the recurrent cycles in commodity prices, and of comparatively stable-income enterprises. In these respective groups we shall cast our appraising eye at Montgomery Ward, Kennecott Copper and American Telephone.

Appraising a Growth Company

As a primary consideration in our first-mentioned group, let us coldly determine whether the particular company under our scrutiny actually represents a growth situation, whether past evidences of expansions really warrant assumptions of its continuance; and on the other hand, not to fall into the commonly-embraced temptation to over-glamorize vague impressions of perpetual forward motion, or imprudently over-pay for those growth elements which are correctly found to be present. One consequence of such payment is that compensatory reduction in the allowance for long-term risk elements is warranted.

Montgomery Ward would indeed seem to qualify as a business enterprise possessing present and probable continuing expansion Since 1937, its net working capital per share has multiplied 2½ times, its book value has increased by 90%, its sales and profits have more than doubled; and the business is one of steadily-expanding outlets.

Now, let us take a look at the important earnings possibilities out of which the vital item of our return is to be garnered. The propensity of a stock to fluctuate between 50 and 80 within 12-month period should drive home the need to give weight to the calculation of *average* earnings over the long-term past and their estimation for the foreseeable future.

Ward's annual earnings from 1937 through 1946 averaged $4.25 per share. In 1946, the profit before special inventory reserves was $7.83, and for 1947 such earnings should be almost $9. Considering all ascertainable factors, including the past setting-aside of liberal reserves from gross income, we can make a rough estimate of $6 as the average earnings to be expected over the next score of years. On the basis of the asset position, and general corporate practice, we can expect two-thirds of the earnings, or $4, to be paid out in dividends over the term. Then we would say that the riskless rental value of our capital will consume 2½% of our capital investment and an additional 4% will approximately amortize our entire investment over a period of 25 years, giving us at the end of the term our interest in the property, plus the undistributed future earnings, at no cost.

So, still keeping our mind off the stock exchange price of the hour, let us so capitalize our expected average return of $4. This would give 62 as the advantageous buying price.

A Variation in Our Concept

From a different angle, our prospective buyer of Montgomery Ward can figure that a cost of 62 will, after the deduction of the riskless-rental charge from the expected earnings' yield of 10%, leave him a definitely attractive, though indeterminable, annual return to take care of the elements of risk and extra-income.

The Margin of Safety

There remains one more, and extremely important, step to be taken in our appraisal. We must realize the many imponderables as management quality, accounting policies, good-will, industry-future, etc., etc., whose miscalculation may well cause our calculations either

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

In retrospect the year 1947 which has just ebbed away, while characterized by much political and economic uncertainty and unrest, nevertheless was a period in which business and industry did achieve record peacetime production and business volume.

Employment, a good barometer of economic well-being, approximated 60,000,000 civilian workers, the highest in the history of the nation, while the latest estimate of national income in the third quarter of 1947, is $204,000,000,000 a year, compared with $72,500,000,000 in 1939.

Both wages and prices during the year have shown a sharp rise, making for an inflationary condition which will lessen or grow worse in 1948 depending upon the steps that are taken by government, industry and the people themselves to arrest it.

Turning to 1948 and what it holds in store for all of us, based on the pronouncements of self-professed students of international affairs and social and economic trends, the future may not appear to be bright.

However, in seeking the opinions of practical men, the country's recognized industrial leaders point with much optimism to a record-breaking volume of business for 1948. The above statement may be amplified further by a study of the business outlook in 1948 made by "Fortune" magazine based on returns from 28,000 executives and appearing in its January issue. In setting forth a composite opinion of these executives, "Fortune" concludes that the present boom will continue for another year in spite of a rise in the cost of living, a "growing fear of labor unrest" and an advance in raw materials.

On the political horizon the picture is somewhat improved in the sense that here at home our people have been finally awakened to the inherent dangers of foreign ideologies, and abroad, some capable honest and courageous men are now at the helm guiding the destinies of key nations throughout the world, thus furthering the cause of peace.

* * *

The pace of total industrial output for the nation last week held to a steady course and continued to maintain the very high levels established in past months. Employment and payrolls too, hovered around near-record peaks as labor difficulties remained at a minimum. Some types of materials and skilled labor continued to be difficult to obtain, but they were less scarce than was the case in preceding weeks.

The advent of the Christmas holiday hampered steel and electric production and freight car loadings.

Automotive production as a result of the Christmas holidays last week dropped to about two-thirds of the record volume of 120,65 units shown in the revised figures of the previous week. The current week's volume will undoubtedly drop below last week's figures, but according to "Ward's Automotive Reports," the following week should see a return to the high production levels of the early part of December.

* * *

Cash dividend disbursements by the country's corporations in November, 1947, as publicly reported totaled $167,300,000 compared with $160,500,000 in November, 1946, an increase of 4%.

In the three months' period—September, October and November—payments on a percentage-wise basis were even greater, the Office of Business Economics of the Commerce Department reveals.

For the above period they totaled $1,148,600,000, a gain of approximately 20% from the $957,700,000 distributed in the like quarter of 1946.

* * *

Further relief was granted to 216 railroads the past week when the Interstate Commerce Commission granted a 25% temporary mail rate increase. The advance will be retroactive to last Feb. 19 for 204 of these roads and to April 17 for an additional 12 rail carriers

The I.C.C. this week granted the roads another interim general freight rate increase of 10%. This is in addition to a like rate advance authorized last October. These rates will remain in effect until June 30, next.

* * *

The stores were crowded the past week as consumers purchased their last-minute Christmas gifts. Retail volume was somewhat above that of the preceding week and well above that of the corresponding week a year ago. The buying of luxury items was generally under last year with moderately priced articles of good quality preferred.

STEEL OPERATION SCHEDULED AT 11.3% HIGHER FOR CURRENT WEEK

With widespread misconceptions over the need for steel allocations and the extent of the steel gray market rampant throughout the country, the steel industry needs friends—but it has them in an

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James Adams Partner In Lazard Freres Co.

Lazard Freres & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, announce that James S. Adams has become a general partner in that firm as of Jan. 1, 1948.

James S. Adams

For the past six years Mr. Adams has been Chairman of the Board and President of Standard Brands, Inc. Previously he was Executive Vice-President of the Colgate-Palmolive-Peet Co., General Manager of Benton & Bowles, Inc., and Vice-President of the Johns-Manville Corp.

Mr. Adams was born in Brazil, Indiana, attended Indiana University, served as a flying officer in World War I, and received the Medal of Merit for services in World War II. He is a Trustee of the United Hospital Fund, the Seeing Eye, and Chairman of the Executive Committee of the American Cancer Society.

A. H. Nollman with Berk & Co. Dept.

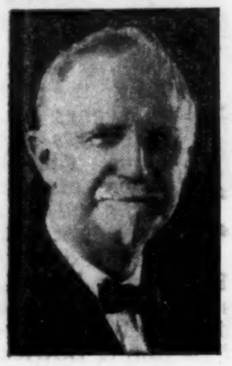
A. H. Nollman has become associated with Berk & Company, 165 Broadway, New York City, as manager of the unlisted trading department. In the past he did business as an individual dealer in New York.

Employment and Outlook for 1948

By ROGER W. BABSON

Noting employment and wages and business earnings are at all time peak, Mr. Babson holds outlook for coming months is good. Warns only honest day's work for honest day's pay will insure continued high employment. Summarizes business and financial outlook for 1948.

With more workers employed than ever before in the history of our country, many of my readers have asked, "How long can the boom last?" Latest figures available reveal better than 43,250,000 persons engaged in nonagricultural industries last month—more than a 200,000 rise over the previous month. This brought total employment close to 60,000,000—an all-time high. At the same time the number of unemployed is estimated at about 1½ million — an all-time low.



Roger Babson

Coupled with this record employment is record wages. For example, in 1939 the average weekly pay envelope for bituminous coal miners was $23.88. Today it is $71.19. In other words, the pay envelope is 198% fatter than it was eight years ago. All along the line wages have improved. Now they seem to be leveling off. In fact, some industries, such as radio manufacturing, furriers, and ladies wear plants, may soon be considering wage cuts.

Business Earnings at All-Time Peak

Last quarter 1947 reports will show better than $4 billion spent for expansion. This will total up to somewhere around $15 billion for the year—35% greater than the previous all-time high of 1929. Even so there seems as yet little indication of overexpansion. On the contrary, some industries report that unfilled orders are greater now, and still continue to be received more rapidly, than at any time since the end of the war.

Businessmen everywhere, with few exceptions, acknowledge that business is good. The New York Stock Exchange recently reported 800 companies paid amounts in dividends equal to an increase of 21.5% compared with the dividends for the same period last year. Indications are that coming months will see continued high output and consequent full employment, unless too great discrepancies develop among incomes, costs and prices.

Grain, Steel and Your Job

Your job and mine will be greatly affected in the coming months by what happens to grain, steel and oil. Grain is the basic source of bread, cereals, producing poultry, eggs and meat. Steel controls the cost of rails, freight cars, farm machinery, household appliances and highway transportation. Oil provides the motive power for the latter.

Under the present conditions two things are needed to help stabilize employment in 1948: (1) controls over the allocation of grain, steel and oil; and (2) a more realistic and Christian attitude on the part of us all to produce more at the least cost. Full employment depends upon increased production and lower prices.

Outlook for Coming Months Good

Right now there are shortages of workers in the great Midwest—that Great Magic Circle of the U.S.A. Similar shortages also exist in the Southwest. This condition is not true, however, for either the east or west coasts. In New England, the Deep South, and the Far West, the labor supply is easier now.

There are some shortages along skilled lines — plumbers, electricians, tool makers, sheet metal workers, etc. Best bets for women are no longer on the production line. Industry now prefers men here. There remain nationwide shortages of stenographers, bookkeepers, and other office workers.

Business and Financial Outlook For 1948

A summary of the outlook for 1948 follows:

(1) 1948 will be more or less of a duplicate of 1947. Certainly there will be no "depression" as so many pessimists are talking about, but fundamental conditions will become increasingly less favorable. Watch out after Nov. 2, 1948.

General Business

(2) The above paragraph applies mostly to gross business. Certain industries will show smaller net profits. This means that, in some cases, dividends may be less in 1948. Remember some things may be allocated or rationed again in 1948.

(3) The reconversion from war to peace has been entirely completed; war surpluses are pretty well disposed of; and 1948 will

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European Currency Reform Essential to Marshall Plan Success

By VINCENT C. SMITH

Analyst, Winslow, Douglas & McEvoy
Members of the New York Stock Exchange

Mr. Smith outlines present unstable and unsatisfactory currency conditions in Europe and its deterrent effects on economic recovery. Sees hoarding of dollars in Europe and points out British exports to U. S. are hampered by pegged exchange rate. Explains natural basis of exchange rates and concludes European currency devaluation will not be permanently effective unless backed up by sound fiscal policies.

Recurrent rumors of widespread devaluation of European currencies have been fanned by the recent 40% cut in the dollar value of the Italian lira. Despite denials by French and British authorities, importers in this county are reported to be hedging against reduction in the franc and sterling rates and World Fund officials are known to discuss frequently the question of the real value of these currencies.

Vincent C. Smith

Free markets do not exist for deposit transfers or regular banking and commercial transactions in most European currencies as the International Fund requires each member to maintain its currency at the official declared value. England, France, Holland and Belgium are members while Italy has not yet been fully admitted. A member may change the declared rate providing the Fund approves changes exceeding 10%. In case of substantial cuts, however, little opposition is to be expected.

The official rates remain pegged but unregulated markets for banknotes or actual currency exist all over the world. Dollar notes are traded in the cafes in Paris and Brussels, in London's "pubs," and in the shadowy ruins of Berlin. Although illegal and surreptitious, these free markets nevertheless persist and their importance can be judged by estimates that about $2 billion in U. S. currency is held by individuals in Europe. In New York City a similar though legal and organized market operates and the quotations given in the table illustrate the low esteem to which some European currencies have fallen in recent months.

Apparently the regulations limiting imports of actual currency do not have much effect on the quotations since prices for dollar notes in principal European cities are reported to be about equivalent. This is partly due to the comparative ease with which banknotes can be smuggled. The French are reported to have virtually abandoned efforts to enforce the 4,000 limit on franc note imports by each incoming traveler, yet the French franc can be bought in New York at the largest discount. If it were not for the existence of the official rates at much higher levels, prices in the banknote market would probably be even lower, so that little allowance should be made for the risks of handling actual currency and fear of devaluation itself. Indeed, American travelers in Europe are offered banknotes of even lower rates in return for depositing dollar sums to accounts in New York banks.

Devaluation of the Lira

The fact that these quotations reflect true values to a far greater extent than the pegged rates has been confirmed by the action of the Italian authorities in reducing the lira from $0.28 per 100 to approximately the free market level of $0.16 per 100. Furthermore, the Italian Government has officially recognized the overvaluation of other currencies. The dollar-lira-sterling cross rate is now equivalent to $3.30 per pound, 18% below the World Fund rate. ($3.30 equal 1984 lire which, in turn, equal 1 pound.) By regulating the value of the lira, within limits, according to fluctuations in the free market, Italy has prepared herself against devaluation of other currencies.

Most countries are opposed to lowering the official dollar value of their money at a time when they expect imports from the U. S. to greatly exceed exports. The higher the dollar rates, the cheaper our goods are to their people. And foreign politicians, especially socialist planners, cannot be expected to desire an increase in the cost to their constituents of U. S. goods, essential or otherwise, which now play such

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New York Market for European Banknotes

Currency—	Official Par		Market Price	Discount	Import Limitation
British pound (1).....	$4.03		$2.55	36%	5 pounds
French franc (per 100)	.84		.32	60%	4,000 francs
Belgian franc (per 100)	2.28		1.95	14%	10,000 francs
Italian lira (per 100)..	.16	new rate	.16		
Italian lira (per 100)..	.28	old rate	.16	42%	5,000 lira
Netherlands gulden (1)	.37		.17	50%	50 gulden

Note—Buying and selling discounts may cause small variations in rates.

From Washington Ahead of the News

By CARLISLE BARGERON

As we turn into the Presidential year, the Washington propaganda is becoming intense. Pitched into the quietness of the holidays, in fact, it seems to have attained a hysterical note.

Mr. Truman who aroused the sympathetic admiration of millions of Conservatives during the first several months of his office, has dropped his robes of humility and down-to-earthiness, and plunged into politics with as much gusto as Roosevelt ever displayed. Having done this, it follows that his politics is that of the ward or city school which has always been his size. On this level he is doing an amazingly good job and while one is disgusted at the sheer demagoguery of his proposals to control inflation, admittedly they have the Republicans in a state bordering on panic.

Carlisle Bargeron

For example, it seems now to be pretty well established that it was an Administration goal, while decrying high prices, to get wheat up to $3. Insiders trying to justify this on a high, statesmanlike plane, say the purpose was to make grain too expensive for the farmer to feed to his cattle, to persuade him to sell it in the market and therefore we would have grain to give to Europe to head off Communism and thereby prevent the Third World War and the destruction of civilization by the atomic bomb. Naturally, if the paying of $3 to the farmer for wheat could accomplish all of this it was eminently justified. Indeed, a payment of as much as $3.50 seems justified, though civilization in its present state cannot be said to be worth much more than that.

But aside from this very worthy purpose of the Administration, it is a fact that $3 wheat is a good way to get votes from farmers among whom the Democrats have been traditionally weak.

On the other hand, hell seems a-popping among the urban dwellers over the high cost of living. So Mr. Truman and his associates launch an offensive against the Republicans which seems to be placing the blame squarely upon them.

You would think the Republicans would be able to shoot the Administration proposals to pieces. Essentially they provide for the calling back of Paul Porter, of Chester Bowles, Wilson Wyatt or their ilk, and you would think it would be easy for the Republicans to explain that while living may not be too happy under present conditions, it was well nigh intolerable under these bozoes. It seems fantastic that this early after their reign there would be any appreciable segment of our population wanting them back. There is the question of housing, for instance. Mr. Wyatt had just about succeeded in completely throttling this industry. Now construction is moving along rapidly. The costs are high, just as they were under Mr. Wyatt, but we are getting housing. Similarly we are getting food; many other commodities, even automobiles, have either come into plentiful supply or are rapidly approaching that state.

To let those gentlemen get back in the saddle and check our progress would be appalling but it is essentially what Mr. Truman proposes and, with the Republicans hemming and hawing, he seems to be effectively saddling them with the high cost of living for not subscribing to his program. I say he seems to be doing this on the basis of the increasing feeling among perfectly good capitalistic housewives with whom I come in contact against Bob Taft. I never knew the female of the species could be so vicious but at the mention of his name I have seen lorgnette equipped dowagers stick out their tongues and hiss. This is in Washington, of course. I don't know what the thinking is out in the country. Here you get the impression that a drove of geese has blackened the skies.

The mechanics of politics being what they are, the Republicans are manifestly handicapped in the matter of a counterattack. They could, for one thing, turn abruptly upon Mr. Truman and say, in effect:

"Why don't you cut out the hypocracy? You know very well that you deliberately maneuvered the price of wheat to $3."

Then they would be in the position of being against $3 wheat for the farmers and giving Mr. Truman credit for bringing it about. In fact, if they go into detail at all, they are likely to establish him as responsible for the "prosperity" we are getting. They must, under the circumstances, content themselves with charging him with responsibility for the "inflation" in apparently unconvincing generalities.

Make no mistake about it: Nobody wants the "prosperity" to end, they just don't want the high prices. It is a quirk of human nature that Mr. Truman seems to be dealing with better than the Republicans.

The latter do seem, however, to be getting under his skin with the attack on men in the government speculating in the commodity markets at the very time Mr. Truman was describing these speculators as unconscionable gamblers.

Clinton Anderson's sensitiveness and expressed indignation against the Republicans on this are truly amazing. Because before the Republicans picked up this perfectly good political material, he, himself, in speeches that strangely were attracting little attention, was saying that the speculators included high government officials, and refugees. Now he doesn't seem to be able to find them.

Stern & Co. Adds "Mike" Aaron to Staff

"Mike" Aaron has become associated with the Arbitrage Department of the New York Stock Exchange firm of Stern & Co., 25 Broad Street, New York City, members of the New York Stock Exchange. Mr. Aaron previously has been associated with Bear, Stearn & Co., A. L. Stamm & Co., and Abraham & Co.

With Bear, Stearns & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Abe R. Buchman has been added to the staff of Bear, Stearns & Co., 135 South La Salle Street.

With King Merritt & Co.

ST. LOUIS, MO. — Henry M. Hellerud and Anthony J. Eichenseer are with King Merritt & Co., Inc. of New York.

Public Utility Securities

New Holding Company Developments

Progress with holding company integration plans has apparently been slowed by the decline in common stock values, SEC plans to move to Washington, pre-occupation with side issues such as the Standard Gas management problem, etc. However, the SEC is expected soon to announce its decision on the Public Service of N. J. plan. Staff findings in the Commonwealth & Southern and United Corp. preferred exchange plans are also anticipated in the next few weeks.

Action on the long-tangled Northern States Power problem was announced by the SEC just before Christmas. The Commission rejected the company's dissolution plan (one of about a dozen allocation plans put forth at various times by interested groups of security holders) and gave the company 15 days to file an amendment which would bring the plan in line with its views. Under the amended plan the allocation of assets would be approximately as follows:

Preferred Stocks	78.0%
Class A Stock	*18.8
Class B Stock	*3.2
	100.0%

*The common stock is to receive 22% of assets.

The company's principal asset is the entire common stock of Northern States Power of Minnesota. In the 12 months ended Sept. 30 the latter company earned about $8,900,000 on its common stock. However, the company has indicated that it plans to establish a pension fund for its employees, the annual cost of which (net after tax savings) would approximate $1,000,000. Deducting this amount and evaluating the common stock at ten times earnings would mean a total of $79,000,000 market value to divide between the two preferred and two common stocks.

Incomplete press reports stated that the SEC favored a division of assets available for the common stock in a ratio of 12½-to-1 between the "A" and "B" stocks (instead of a 10-to-1 ratio as provided in the capital set-up). Applying these ratios to the number of shares outstanding in each class, the proportion assigned to the "A" stock as a class works out at 18.8% and to the "B" stock at 3.2%. The value obtained by the "A" stock would be approximately $43 a share or slightly in excess of the recent market price of 41. However, even in the present market a stock of the caliber of Northern States Power might well be worth 11 times earnings, which would increase the valuation to $48 per share.

Of course the Northern States Power plan will again have to run the gauntlet of the Federal courts. However, considering the decline in the market it seems probable that the proposed settlement is about the best that the class "A" stock can hope for; and since the principal protests over other plans have come from these stockholders, the new plan may have a better chance for court confirmation than previous proposals.

New plans for American Light & Power and Electric Light & Power are being prepared by the managements and may be filed some time early in 1948. Values of EL have held up better than for AP. The EL system is favored by its tie-in with the natural gas industry, and use of gas for boiler fuel. Changes in its plan may be less drastic than for AP, therefore. The latter may revert to an allocation formula, it is surmised.

While the American Light & Traction-United Light & Railway's plan has received only tentative approval from the SEC, no court confirmation is required and it looks as though the involved schedule of distributions and sales during 1948 will be carried out (American disposing of Detroit Edison and Madison Gas holdings, and United Light disbursing its holdings of American preferred and common). Plans for the new pipeline will probably move slowly, though construction is now getting under way.

Substantial progress has been made with most other holding company plans, although a great many loose ends remain to be taken care of. The Standard Gas & Electric case (and the problems of its affiliated holding companies Standard Power & Light and Philadelphia Co.) remains perhaps the "toughest nut" for the SEC to crack.

New E. F. Hutton Dept. Under R. K. Buechler

E. F. Hutton & Company, 61 Broadway, New York City, members of the New York Stock Exchange, announce the establishment of an Institutional Bond Department under the direction of Richard K. Buechler. Mr. Buechler has been manager of the Institutional Department at Kalb, Voorhis & Co. and prior to that was manager of the Corporate Trading Department at Lehman Bros.

Richard K. Buechler

G. A. Raymond Joins Staff of Hoppin Bros. & Co.

Hoppin Bros. & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that Garfield A. Raymond has become associated with the firm. He was formerly with Reynolds & Co.

Economists Report on 1948 Business Outlook

Majority of National Industrial Conference Board panel report favorable prospects for 1948, but Robert Nathan sees possibility of 6 to 8 million of unemployed.

Fourteen of the nation's leading economists discussed the business outlook for 1948 at the latest 'Evening with the Economists,' held under the sponsorship of the National Industrial Conference Board.

The members of The Conference Board Economic Forum and guests of the board were:

*Lionel D. Edie (Discussion Leader), Lionel D. Edie & Co.

Jules Backman, Associate Professor of Economics, School of Commerce, Accounts and Finance, New York University.

*Louis H. Bean, U. S. Department of Agriculture.

Solomon Fabricant, National Bureau of Economic Research.

Martin R. Gainsbrugh, Chief Economist, National Industrial Conference Board.

Edwin B. George, Economist, Dun & Bradstreet.

*Everett H. Hagen, Bureau of the Budget.

A. D. H. Kaplan, The Brookings Institution.

*Robert R. Nathan, Robert Nathan Associates.

Clyde L. Rogers, Secretary, National Industrial Conference Board.

O. Glenn Saxon, Professor of Economics, Yale University.

*Helen Slade, American Statistical Association.

Bradford B. Smith, Economist, United States Steel Corporation.

Rufus S. Tucker, Economist General Motors Corp.

Lionel D. Edie Sees Business 'Strong' Through the First Half of 1948—Mr. Edie places the Federal Reserve Index of industrial production for the first half of 1948 at 185 (1935-1939 as 100). 'I do not have a figure for the second half which can be given with a proper degree of assurance. . . . As to commodity prices, I would put down for the first half of next year approximately the current index of wholesale prices, or 158; for the second half, again I do not have a figure, but in a general way I have in mind a second-half average not so high as that of the first half. . . . In studying the general business outlook for 1948, the paramount question is whether capital expenditures can hold at this rate. There are two reasons why I seriously doubt that they can hold at this rate beyond the first half of next year. The first reason is the cost of executing these capital expenditures. The costs are already very high. . . . If the wage pattern of 1948 doesn't slow down capital expenditures, then the shortage of capital will do so, though perhaps with some difference in timing. . . . That is the reason I hope for an orderly adjustment, and then we can go ahead with a pretty good level of business and a healthier condition prevailing. . . . Business is strong today, and it is going to be strong through the first half of next year. Beyond that, I am frankly up in the air."

* * *

Robert Nathan Sees Six to Eight Million Unemployed—"I do believe that the present upward trends in basic underlying forces in the economy are going to persist very long. I am inclined to think they may not go through the first half of next year, and we may have a decline then. The upward trend will certaintly not extend throughout the rest of the year. We will not have a very serious major crash. But we will have a rather sizable readjustment

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*Guests.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

New York City Bank Stocks—Preliminary comparison of 1947 earnings—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Over a Century of Cotton Prices—Chart of spot cotton prices listing yearly highs and lows from 1829 to 1946—Bruns, Nordeman & Co., 60 Beaver Street, New York 4, N. Y.

Preferred Stock Prices—Tabulation of original offering price and current market quotations for a large number of preferred stocks offered during 1947—Union Securities Corporation, 65 Broadway, New York 6, N. Y.

* * *

Artkraft Manufacturing Corp.—Full Details—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

B. V. D. Corporation—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Graham-Paige Motors Corp.—Analysis—Seligman, Lubetkin & Co., 41 Broad Street, New York 4 New York.

Also available are analyses of **Foundation Co., Wellman Engineering,** and **Tennessee Products & Chemical.**

New York, Chicago & St. Louis Railroad (The Nickel Plate)—Discussion of a special situation in rails—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Portsmouth Steel Corp.—Data—Buckley Brothers, 1240 Walnut Street, Philadelphia 2, Pa.

Also available is late information on **Gruen Watch Co.** and **Buffalo Bolt Co.**

Portsmouth Steel—Special Report—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available is a special report on **Diebold.**

Public National Bank & Trust Co.—Third quarter analysis—C. E Unterberg & Co., 61 Broadway New York 6, N. Y.

Railroad Developments of the Week—Current activity in the industry—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Special Situation—Analysis of 85-year-old New England company with large dividend accumulation—Raymond & Co., 148 State Street, Boston 9, Mass.

Steel, The Master Metal—Circular on the industry and stocks of several low-priced speculative steel companies—Mercer Hicks & Co., 150 Broadway, New York 7, N. Y.

Utica & Mohawk Cotton Mills, Inc. — Circular — Mohawk Valley Investing Co., Inc., 238 Genesee Street, Utica 2, N. Y.

COMING EVENTS

In Investment Field

Jan. 14, 1948 (Detroit, Mich.)
Annual Dinner of the Detroit Stock Exchange at the Hotel Statler.

Feb. 3, 1948 (Chicago, Ill.)
Mid-Winter Dinner of the Bond Traders Club of Chicago at the La Salle Hotel.

March 5, 1948 (New York City)
New York Security Dealers Association 22nd Annual Dinner at the Waldorf Astoria.

March 12, 1948 (Toronto, Ont., Canada)
Annual Dinner of the Toronto Bond Traders Association at the King Edward Hotel.

Nov. 15-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

Walcott E. Sibley Is Forming Own Inv. Firm

BOSTON, MASS.—W. E. Sibley & Co. is being formed with offices at 10 Post Office Square to engage in the securities business. Partners are Walcott E. Sibley and Mildred E. Eastman. Mr. Sibley was formerly a partner in E. B. Wilson & Co. with which Miss Eastman was also associated.

Jacques Coe Admits Gutenstein; Adds Sullivan

Jacques Coe & Co. 39 Broadway, New York City, members of the New York Stock Exchange, announce that Ferdinand Gutenstein has been admitted as a general partner of the firm and that Joseph E. Sullivan will be associated with them.

An Electric Utility Forecast

By GEORGE L. NYE
Head, Research Department, Smith, Barney & Co.

Utility analyst forecasts a $5 billion expansion program during next three years, despite rise of 10% to 25% in cost of capital. Foresees substantial operating economies and revenue growth overcoming anticipated rises in wages and fuel costs, and looks for favorable attitude of investors towards utilities.

A few months ago, the Edison Electric Institute predicted that the electric utility industry in the next five years would be required to spend some $5 billion for plant expansion. Such expenditures within that period of time would mark the largest program the industry has embarked upon in its history. Recent trends in growth of peak loads and the narrow margin of plant capacity over peak loads on which the industry is operating today, however, would indicate that this program will be advanced into the space of three years if deliveries of equipment can be accelerated. To an industry which for the greater part of the past 17 years has been able to finance its expansion largely through earnings, this program presents an important problem of finance.


George Nye

Most Companies in Need of Additional Capital

At the close of 1946, the electric utility industry enjoyed a sound financial structure, with long term debt accounting for only 46½% of the total capitalization of the industry. Preferred stock accounted for 15.4% of the total capitalization and common stock and surplus amounted to 38.1%. The situation with respect to individual companies, of course, may vary quite widely compared with the averages. There are many companies that have relatively heavy capital structures at the present time and find themselves in serious need of additional equity capital to carry out their construction program.

All told there has been in excess of $1,100,000,000 of utility financing in 1947 of which about $550,000,000 was new money from public financing. This pressure on the market and the prospect of large amounts of financing still to come is having the effect of substantially raising the cost of money to the utility industry. The recent change in Federal monetary policy which has brought about a general stiffening of interest rates, of course, has also been a contributing factor in the rising cost of money.

Cost of New Money Up 10-25%

Thus far, the increase in cost of money as compared with say six months ago may be estimated at 10 to 25% depending upon the type of financing undertaken. The difficulty of raising money has been further highlighted in recent weeks by the failure of several utilities to obtain satisfactory bids for offerings of junior securities and in some cases there have been no bids at all.

Just to cite an example, the Southern California Edison Company, which is one of the finest utility properties in the United States, last May refinanced its outstanding preferred stock on a 3.76% basis. Recently, this company came to the market to raise additional funds proposing to sell $40 million of a new preferred stock. Recognition was later given to market conditions and this amount was reduced to $20 million. The cost of this new money based on the public offering price was 4.65%, or an increase of about one-quarter as compared with last May.

Top-grade operating company bonds have suffered a like fate. Whereas six to eight months ago these bonds were being offered at yields of 2.60 to 2.75%, today yields on even the highest grade bonds such as those of the Cleveland Electric Illuminating Company have been offered to yield close to 3% and yields on lesser grade issues have gone well above 3%.

Substantial Operating Economies Seen Likely

At least a partial offset to the increase in the cost of raising money, are the indications that there will be substantial operating economies made possible by the present construction program of the industry and that this taken together with further growth in revenues will enable the industry to adequately service the new securities which must be issued to finance the program.

Taken by itself, the raising of $5 billion for the utility industry would not be too difficult a task. Unfortunately, the industry's requirements will have to compete for money with other major industries throughout the country. The Bell system, for example, has a $4 to $5 billion program of its own. Breaking the electric industry's program down, it would appear that approximately 30% of the $5 billion can be derived from earnings of the industry either through the depreciation reserve or through other amortization charges and retained earnings.

Approximately 50% and possibly more of the requirements can be raised through the sale of bonds which would mean an annual rate of between $800 million and $900 million per year for the next three years through this type of financing compared with about $350 million new money issues in 1947.

Principal Markets Lie With Private Investors

This would leave between $800 million and $1 billion to be raised through the sale of equity issues of which about half would have to be common stock and the balance preferred stock. The principal market for equity securities appears to lie with endowment funds, investment trusts and the private investor.

In view of the difficulty of selling preferred stocks in the type of market which we have recently been experiencing and the high cost of money in selling common stocks in this type of market, it seems quite likely that the industry will have to resort to the pattern of financing so successfully employed by the Bell Telephone system and some years ago by the Commonwealth Edison Company of Chicago by greater use of convertible debentures.

As for preferred stock money this market has very few friends at the present time, and the last two important issues, namely Appalachian Electric Power Company and the Indianapolis Power & Light Company, have resorted to the use of a sizable fund in order to increase the acceptability of this type of issue. Southern California Edison, despite the

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Free Enterprise and Planned Economy

By ROY L. GARIS*
Professor of Economics, The University of Southern California

Professor Garis defines free enterprise as a system that maximizes individual liberty, but denies, as it exists today, it implies *"laissez faire."* Holds planned economy leads to collectivism or totalitarianism and dictatorship, and cannot be successful since no person or single group possesses knowledge and foresight required by it. Decries government price making.

I accepted the invitation to participate on this program in the hope that I might contribute somewhat to a clarification of the issues involved. Since the question before us is one of **political** economy, I wish to go on record as a Southern Jeffersonian Democrat. As an economist I believe in and defend the fundamental principles of our system of free enterprise, which is based upon the philosophy of individualism as opposed to collectivism.


Roy L. Garis

In speaking to an audience such as this, it hardly seems necessary to define terms. Yet for the sake of clarity, I mean by free enterprise:

Freedom of choice for each of us as: enterpriser, worker and consumer. (This includes the right not to work.)

Freedom of opportunity.

Freedom of competition.

A maximization of production to meet human wants, within a realizable future as freely expressed by consumers.

The profit motive.

Private planning by individuals and business enterprises.

Prices determined in free markets.

Personal responsibility with rewards fundamentally according to merit and efficiency.

Private ownership of property.

The recognition of a social obligation to care for our indigent and unfortunate groups in a generous manner.

Each of these factors is socially desirable.

Free enterprise is a system that maximizes individual liberty. By its very definition a system of collectivism cannot permit or tolerate any of these fundamental principles with the possible exception of a negligible amount of private ownership of property.

Free enterprise as it exists today does not mean *laissez faire*. *Laissez faire* has been dead for 100 years. Government regulation in a free enterprise system is recognized as essential to protect the interests of all participants, just as official and rules are necessary in any football game or other contest. Such public organizations as the Interstate Commerce Commission the Federal Reserve Board, and the Securities and Exchange Commission have a legitimate place within the system of free enterprise. For the opposition to insist on identifying free enterprise and *laissez faire* is to build up a strawman in order to have the pleasure of knocking him down—it is to confuse the issue. I have no quarrel with persons whose concept of planning is merely government regulation.

Let me now define planning as I am using the term in this paper. Barbara Wootton defines it as "the conscious and deliberate choice of economic priorities by some public authority." Prof. Spencer Pollard defines it in similar language as "an overall allocation of natural resources and production by government and not by private enterprisers or by monopoly." The market mechanism and the role of price are ignored. In this critical analysis, I am confining my definition to this concept of planning as set forth by Wootton and Pollard.

As thus defined, in order to even approach reasonable success planning necessitates omnipotent government, State-planned production, a maximization of public ownership, government monopolies, State control of employment, conscription of labor and capital, prices fixed by government, rationing of consumption and distribution according to some government fiat, censorship, and the abolition of the freedoms guaranteed to us in our American Constitution. It must be a totalitarian regime.

As herein defined, planning is based on the assumption that someone somewhere in public life or some group of individuals in the Administration or at its command, has reached that stage of superhuman wisdom which enables them to know what are the "most essential uses" of available resources for 140,000,000 people. Arguments for allocating or "channeling" such things as steel, for example, into "the most essential uses" ignore the fact that it logically follows that all resources in short supply would have to be allocated also in a similar manner. And what resources would not be "in short supply?"

This implied super wisdom ignores the infinite number of equations that these planners would have to bear in mind simultaneously.

Also the fact is ignored that under a system of planning the same penalties must be paid when errors of judgment are made or when the system of planned production breaks down. The recent developments in Russia are ample proof of this. Furthermore, if Russia undertook to satisfy her consumer demands as freely expressed by consumers in a minimum of time as in our country she would be faced with the same corrective adjustments that occur under free enterprise and which seem to alarm our planners so much, viz.: temporary surplus capacity, unemployment and the usual phenomena of the cycle. In fact, only by abolishing liberty as we understand the term—in particular that of workers—and by an arbitrary ignoring of consumer demands can any planned economy hope even for a semblance of success, and then only at the surface level and for a questionable length of time.

In so far as the role of price is concerned, the actual price in a free economy is in accordance with the productive importance of that agent, since the marginal product of each agent is a primary factor in pricing that agent of production. This involves a relative scarcity of the agents of production and other factors. Hence the actual pricing takes time and creates a degree of uncertainty as well as a time lag.

In a planned economy, a government may assign values (prices) on an arbitrary basis to the several agents of production. It can then allocate these agents to productive purposes arbitrarily as it may determine. Obviously, some degree of error will accompany any assignment of value for a given agent of production; and the value when assigned will likely be too rigid to accommodate the situation. The infinite number of ratios involved successfully challenge the limitations of human wisdom. The disastrous consequences of inevitable errors in arbitrarily assigned values (prices) which must be practiced by a government planning agency will thus far outweigh any corrective adjustments that occur in our system of free enterprise, subject to government regulation. In spite of its imperfections, the role of price and the mechanism of the market is the very basis of the economic system which has made us the envy of the world.

If I were to take a text as a basis for my discussion of the problem before us, it would be from the address of Donald Nelson to the graduating class of the University of Southern California in June, 1947, when he stated: "A planned economy cannot and will not work, for none of us are smart enough to plan it."

In a recent article, "Plan or No Plan," Lowell W. Herron[1] states:

"The belief that the free enterprise system is unplanned is so widespread, so firmly established, and so false that one is reminded of the observation made by a famous American humorist, that 'It's not ignorance that does so much damage; it's knowin' so derned much that ain't so.'

"Most of us will agree that an individual should do some planning of his financial affairs. If we do agree with individual planning then it is inconsistent for us to advocate that the government do all the planning because this means that some government group of politicians and bureaucrats are going to take over this job of planning and do it for us. These planners follow a definite pattern of action. They soon find it expedient to quiet those who oppose, obstruct, or criticize the 'Plan.' A partial plan is never satisfactory to them and soon a 'Master Plan' emerges which restricts both economic and personal freedom. Since plans take time to carry out, one soon finds 'first five-year plans,' then a 'second

*From an address by Professor Garis at the University of Washington, Seattle, Wash., Dec. 29, 1947.

1 The Clarkson Letter, September, 1947.

(Continued on page 31)

Pennsylvania Brevities

Progress in Pittsburgh Rwys. Reorganization

December was highlighted by three developments bearing upon the complicated task of effecting a reorganization of Pittsburgh Railways Co. and its 50-odd component underliers.

(1) Concurrent hearings were begun before Special Master Watson B. Adair in reference to (a) the possible subordination of some $70,000,000 in claims asserted by Philadelphia Company against the debtor and (b) the proposals made by W. D. George, Trustee, in respect to revising the existing amended plan of reorganization now before the Federal Court.

(2) Pittsburgh Railways Co. filed with the Pennsylvania Utilities Commission a petition for fare increases. If granted, the principal boost would be to a straight 10-cent cash fare as against the present three-for-25-cents token rate.

(3) Petitions were filed by the city of Pittsburgh and the Securities and Exchange Commission asking for a survey by competent, qualified and independent transit experts as to the advisability of substituting bus service, in whole or in part, for the present street car service in Pittsburgh.

Subordination Proceedings

Whether or not claims of Philadelphia Company against the Railways Company and the underliers are to be subordinated in whole or in part to the claims of minority public holders of system securities will bear importantly upon the reception of the trustee's present proposals by the public. If it can be established that Philadelphia Company should be "deep rocked" into a junior position, the trustee's plan would probably be acceptable, since any substantial reallocation of assets in favor of public holders would come close to bringing them out whole. This most important factor will be resolved by a thorough research into the financial relations between Philadelphia Company and its subsidiary, dating as far back as 1885. Attorneys for the SEC and for Jules Guggenheim, and others, New York securities holders, contend that since Philadelphia Company is the sole stockholder of Pittsburgh Railways, it must prove that its claims were established under circumstances that, at all times, were "fair" to the Railways Company.

Thus far, the hearings have produced some interesting testimony. According to a Price, Waterhouse report, it is indicated that in 1902 Philadelphia Company acquired Pittsburgh Railways without putting up a nickel in cash. The $5,000,000 capitalization of the Railways Company was exchanged for $2,500,000 Philadelphia Company stock—50 cents on the dollar, in stock.

It is expected that the SEC will closely scrutinize the payment of cash dividends aggregating some $3,500,000 to Philadelphia Company, some of which were paid in years when the Railways Company was deeply in the red. It appears that, at times, Philadelphia Company advanced funds to its subsidiary with which to pay dividends back to itself. The Price, Waterhouse report states: "It will be noted that, in certain instances, cash advances were received and dividends paid on the same day."

The Trustee's Proposals

It is generally felt that the allocations contained in the present plan cannot be conclusively considered until the question of subordination, discussed above, is resolved. Preliminary argument is centering around the trustee's arbitrary formula of allocating assets according to the three equally-weighted factors of gross revenues, car miles and track mileage. Individual security holders have presented statements respecting their particular holdings, asking generally that the validity of guarantees, contracts and agreements be upheld.

Fare Increases Asked

Unless the Public Utilities Commission takes some action before Jan. 5, the new fare schedules filed by the Railways Company will go into effect on that date. Characteristically, Pittsburgh's Mayor, David L. Lawrence, and City Solicitor, Anne X. Alpern, bitterly oppose the proposed increase, contending that any such petition should await the conclusion of the reorganization proceedings whereupon its need could not be substantiated.

The company bases its plea for higher fares quite simply on the fact that it has had no increase for 20 years and that the costs of providing adequate service have skyrocketed. It dismisses the Mayor's assertion that "the underliers draw $3,500,000 from the system each year," by pointing out that no payments have been made to the underliers since 1938.

The PUC is expected to rule upon the company's petition upon a basis of "fair return" on property values. The company's internal financial affairs and the politically-tinged attitude of the city of Pittsburgh are not considered to be proper factors for consideration in determining fares.

Buses to Be Substituted?

The Federal Court has fixed Jan. 6 as the date for hearings on the petition to require a survey to be made on the question of substituting buses for street cars "in whole or in part."

The company opposes the change on the grounds that it would require the scrapping of costly equipment, that the topography and traffic situation in Pittsburgh are unitable for buses and that new trolley cars are superior in performance and more acceptable to riders.

"If this is true," says Mr. Samuel Koenigsburg, representing the SEC, "the impartial survey will show it. So why not have the survey and get the facts?"

* * *

Curtin Heads Warner Company

John Curtin, Jr., has been elected President of Warner Company, sand, gravel and lime products producers, to succeed Charles Warner, who will continue as Chairman of the board and chief executive officer. Mr. Curtin, a graduate of Lehigh University in 1930, has been with Warner Company for 22 years. His elevation to the Presidency is in line with the present policy of the management to move its capable younger executives ahead into positions of active administration.

In a statement made last week, Charles Warner reported that the company's $4,500,000 expansion program, begun after the war, is approximately two-thirds completed. He estimated that sales and earnings of the company will set new records this year. Sales are expected to exceed $13,000,000 and net income may reach $1,391,800, equivalent to $3.20 per share on the common.

The Board of Directors last week declared a common dividend of 30 cents per share, payable Jan. 15.

* * *

Pennroad Buys Its Shares

Expending $2,153,870, an average of $6.18 per share, Pennroad Corp. has purchased 348,556 shares of its stock during the period from Jan. 1 to Nov. 15, 1947. Through purchases made in previous years, the original capitalization of 9,090,000 shares has been reduced to 5,156,529 shares. Directors state that additional shares will be bought at such prices and times as are deemed advantageous.

* * *

SEC Leaves Phila.

The Securities and Exchange Commission makes its adieu to Philadelphia Jan. 5, taking with it an annual payroll of $3,620,000. In addition, the city will lose $36,200 in annual wage-tax revenue.

Since March, 1942, the SEC has occupied the former Penn Athletic Club buildings on Rittenhouse Square for which the government paid $200,000 annual rent. It is reported that cost of moving the agency and its employees will amount to about $210,000. In Washington, the SEC will be housed in a government-owned building.

* * *

Philco Corp.

John Ballantyne, President of Philco Corp., states that bank loans which last April reached a peak of $9,000,000, have been entirely paid off. Mr. Ballantyne reported that sales for 1947 should exceed $215,000,000, about three times the 1941 volume and comparing with $121,600,000 in 1946. Plans for 1948 call for increased production in all the company's major divisions.

* * *

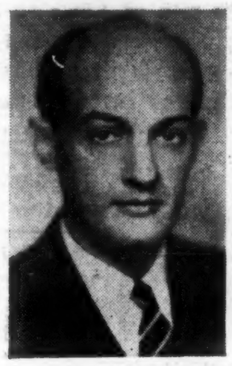
John B. Stetson

In the annual report for the fiscal year ended Oct. 31, 1947, David H. Harshaw, President of John B. Stetson Co., reported sales of $29,336,257, or 43% above 1946. About $1,000,000 will be spent for plant improvements in 1948, he said.

Three New Partners Admitted by Orvis

Orvis Brothers & Co., 14 Wall Street, New York City, members of the New York Stock Exchange and leading commodity exchanges, announce that Clifford G. Doerle, William G. Wigton and J. Antonio Zalduondo will be admitted to the firm as general partners as of Jan. 1.

Clifford C. Doerle



J. Antonio Zalduondo

William G. Wigton

Mr. Doerle started with the Orvis organization 20 years ago as a runner and for the last 12 years has been in charge of the Orvis order telephones on the Stock Exchange floor. Mr. Wigton's first job with the firm also was that of runner in 1936. He attended Phillips Andover Academy and Yale University and for three years during World War II served overseas as a Captain in the U. S. Army.

Mr. Zalduondo, associated with Pan American Airways for 18 years, is resigning as tariff manager for Cia. Mexicana de Aviacion, Mexican subsidiary of Pan American, to join the Orvis firm.

With C. L. Vertin Co.

(Special to THE FINANCIAL CHRONICLE)

SALINAS, CALIF. — Maynard C. Froemke is now with C. L. Vertin Co., 341 Main Street. He was formerly with Buckley Brothers in Los Angeles.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The year 1947 was a hectic one for the government securities markets with violent price eruptions taking place in both directions. . . . The money markets had a real taste of debt management under peacetime conditions, with action being taken by the authorities first, to keep prices from going too high and then to prevent them from going too low. . . . The latter experiment is still on. . . . The interest rate pattern was also changed with the bill rate going to .95% from .375%, the certificate rate from .875 to 1.12%, with the intermediate-term rate moving up to 1.75% from 1.48%. . . . The long-term rate was still held at 2½% although yields on long Treasuries advanced from 2.32% to 2.48%. . . .

ON TRIAL

Sharply increasing loans and inflationary trends brought action by the monetary authorities in the latter part of the year, which had a marked influence upon the government bond market. . . . There was selling by both banks and non-bank investors of long Treasuries. . . . Federal and Government Trust Funds were the only buyers. . . .

Debt management is being thoroughly tested and with a debt as large as ours, too many mistakes cannot be made. . . . Confidence has been badly shaken, but at the same time the recent disorderly market due to the pulling of price supports, is a mild sample of what could take place if prices were left to seek their own levels. . . .

If lower government bond prices should not curb the inflationary trend, would it not be better to protect them at levels that could prevent complete chaos in the money markets? . . . 1947 has started a chain of events in the government market that must be watched carefully in 1948. . . .

STATISTICAL RECORD

The eligible taxable obligations closed the year 1947 at their lows, because of the liquidation wave that got under way during the final months. . . . The decline in prices last year was more substantial than in 1946 as is shown herewith:

Eligible Taxable Bonds

Issue		Price Range 1947 High	Price Range 1947 Low	12-31-47 Bid Price	12-31-47 Clos'g Yield %	12-31-46 Bid Price	12-31-46 Clos'g Yield %	Price Chge. 32nds	Yield Chge. %
2%	3-15-48/50	101.8	100.6	100.6	.90	101.6	.97	—1.00	—.07
1¾%	6-15-48	101.4	100.10	100.10	.95	101.0	1.02	— .22	—.07
2%	6-15-49/51	102.9	101.5	101.4	1.17	102.4	1.11	— .31	+.06
2%	9-15-49/51	102.13	101.5	101.4	1.29	102.9	1.13	—1.4	+.16
2%	12-15-49/51	102.19	101.8	101.8	1.31	102.15	1.14	—1.7	+.17
2%	3-15-50/52	102.22	101.11	101.14	1.32	102.15	1.20	—1.1	+.12
2%	9-15-50/52	102.26	101.12	101.15	1.44	102.17	1.28	—1.2	+.16
1½%	12-15-50	101.13	100.5	100.11	1.36	101.6	1.18	— .27	+.18
2%	9-15-51/53	103.2	101.12	101.12	1.60	102.25	1.38	—1.13	+.22
2%	12-15-51/55	103.6	101.12	101.12	1.62	102.29	1.38	—1.17	+.24
2½%	3-15-52/54	105.15	103.4	103.4	1.71	105.2	1.48	—1.30	+.23
2%	6-15-52/54	103.6	101.8	101.8	1.69	102.27	1.45	—1.19	+.24
2¼%	6-15-52/55	104.10	102.4	102.4	1.74	103.29	1.49	—1.25	+.25
2%	12-15-52/54	103.9	101.4	101.4	1.75	102.29	1.48	—1.25	+.27
2½%	3-15-56/58	107.14	102.24	102.24	2.13	107.3	1.66	—4.11	+.47
2¼%	9-15-56/59	105.21	101.8	101.8	2.08	105.7	1.66	—3.31	+.42
2½%	9-15-67/72	106.22	101	101.0	2.43	106.7	2.12	—5.7	+.31

PARTIAL EXEMPTS

The partially-exempts, like the eligible taxables, showed very large price declines during 1947. . . . The recession in quotations of the eligible exempts in 1947 was much greater than those registered in 1946. . . . The record is as follows:

Eligible Partially Exempts

Issue		Price Range 1947 High	Price Range 1947 Low	12-31-47 Bid Price	12-31-47 Clos'g Tax Free Yield %	12-31-46 Bid Price	12-31-46 Clos'g Tax Free Yield %	Price Chge. 32nds	Yield Chge. %
2¾%	3-15-48/51	102.12	100.12	100.12	.57	102.9	.67	—1.28	—.10
2½%	9-15-48	102.28	101.4	101.4	.62	102.26	.68	—1.22	—.06
2%	12-15-48/50	102.11	101.1	101.1	.72	102.6	.71	—1.5	+.01
3⅛%	12-15-49/52	106.14	103.24	103.28	.91	106.12	.78	—2.16	+.13
2½%	12-15-49/53	104.21	102.16	102.20	.93	104.15	.81	—1.27	+.12
2½%	9-15-50/52	105.16	103.08	103.10	1.03	105.10	.88	—2.00	+.15
2¾%	6-15-51/54	107 13	104.22	104.26	1.10	107.3	.95	—2.09	+.15
3%	9-15-51/55	108.23	105.24	105.26	1.14	108.17	.96	—2.19	+.18
2¼%	12-15-51/53	105.24	103.14	103.14	1.14	105.14	.95	—2.00	+.19
2%	6-15-53/55	105.23	102.12	102.14	1.29	105.6	.99	—2.24	+.30
2¼%	6-15-54/56	107.24	103.20	103.24	1.37	106.31	1.08	—3.07	+.29
2⅞%	3-15-55/60	112.14	106.08	106.10	1.63	111.26	1.16	—5.16	+.47
2¾%	9-15-56/59	113.3	106.04	106.04	1.68	112.19	1.16	—6.15	+.52
2¾%	6-15-58/63	114.00	107.00	107.04	1.71	113.9	1.27	—6.05	+.44
2¾%	12-15-60/65	115.7	107.24	108.00	1.74	114.26	1.34	—6.26	+.40

The restricted bonds finished the year 1947 at their lows, which prices were made possible through support by the monetary authorities. . . . The down-trend in 1947 was substantial in certain issues and was a reversal of what took place in 1946 as will be seen in the accompanying tabulation:

Taxable Bonds—Restricted Issues

Issue		Price Range 1947 High	Price Range 1947 Low	12-31-47 Bid Price	12-31-47 Clos'g Yield %	12-31-46 Bid Price	12-31-46 Clos'g Yield %	Price Chge. 32nds	Yield Chge. %
2¼%	6-15-59/62	102.31	100.00	100.00	2.25	102.6	2.04	—2.6	+.21
2¼%	12-15-59/62	102.31	100.00	100.00	2.25	102.6	2.05	—2.6	+.20
2½%	6-15-62/67	105.26	101.8	101.8	2.39	104.31	2.12	—3.23	+.27
2½%	12-15-63/68	105.13	101.0	101.0	2.42	104.17	2.17	—3.17	+.25
2½%	6-15-64/69	105.1	100.24	100.24	2.44	104.3	2.21	—3.11	+.23
2½%	12-15-64/69	105.0	100.24	100.24	2.44	104.1	2.22	—3.9	+.22
2½%	3-15-65/70	104.29	100.24	100.24	2.45	104.0	2.23	—3.8	+.22
2½%	3-15-66/71	104.28	100.16	100.16	2.46	104.0	2.24	—3.16	+.22
2½%	6-15-67/72	103.23	100.8	100.8	2.47	102.27	2.32	—2.19	+.15
2½%	12-15-67/72	103.23	100.8	100.8	2.48	102.27	2.32	—2.19	+.16

Whether prices of Treasury bonds can be maintained at present support levels is an open question now. . . . The year 1948 will provide the answer and unless the "pegs" are maintained the wide convulsive price gyrations of 1947 may look like minor price movements.

Timing Fiscal Policy

By EVERETT E. HAGEN*

Bureau of the Budget, Washington, D. C.

Dr. Hagen points out use and timing of fiscal policies implies three conditions, viz: (1) that economic fluctuations will occur; (2) they cannot be prevented or sufficiently mitigated by positive measures and then left to operate automatically; and (3) they can be prevented or mitigated by timed policy changes. Holds economic forecasting is not far enough advanced to get adopted policies into effect at right time. Sees lack of sufficient administrative discretion to make plans of fiscal and monetary policy proper and immediately workable, but holds tools exist for advance planning to meet economic fluctuations

The timing of fiscal policy—and of non-fiscal employment policies—is a topic well worth exploring. In their preoccupation with analyzing the effects of various fiscal policies, most economists during the last 15 years—and this includes me; I do not by any means wish to claim any superiority in this matter—have not given much consideration to the problem of assuring that the policies which produce certain effects will be put into operation at the time when those effects are wanted. But unless we are going first to enter deep into a serious depression (if and when one occurs), and then to plan measures to get out of it—unless we are resigned to this—we need to plan in advance not only the measures to be used, but also how to get them into operation promptly when they become needed. Or, consider the contrary situation. We have now experienced 18 months of inflation since the termination of price controls. After a lull last spring, a second upsurge of prices occurred. If its violence was forecast by any of us present, he kept his prescience modestly concealed. To have prevented that second upsurge, it would have been necessary not only to have had counter-measures ready, but also to have had methods of introducing them promptly when needed.

Everett E. Hagen

I shall use the term "employment policies." I use that term, however, to include repressive or contractionary measures as well as stimulating or expansionary ones; my comments are directed, that is, at the prevention of inflation as well as of unemployment. I shall discuss the *timing* of employment policies, assuming the acceptance by the great majority of you of the policies themselves.

Is Timing Employment Policies Fruitless?

There are three states of mind, any of which would make one feel that discussion of the problem of timing employment policies is fruitless. One is conviction that autonomous forces which affect the level of income and employment were going to tend toward a stable secularly growing level of full prosperity, or else toward a stable depressed state. In the former case, nothing would need be done except to keep public policy neutral; in the latter, nothing except to adopt policies necessary to raise the level of aggregate demand by the requisite amount, and then maintain them.

The second state of mind is the conviction that measures can be adopted which, once installed in the economic framework, would automatically counteract economic fluctuations and preserve a desired level of economic activity. In either of these two cases, no problem of timing would arise.

Finally, there may be the conviction that no feasible deliberate action, no matter how well considered, can prevent the fluctuations which will occur. This conviction may go so far as to include the judgment that the result of interferences may be perverse, exaggerating the swings. In this case, attempting to time deliberate policies will do no good.

The discussion of timing fiscal policies therefore implies three substantive judgments to all of which I subscribe: that economic fluctuations of significant magnitude will occur, that they cannot be prevented or sufficiently mitigated by measures which can be instituted and then left to operate automatically, and that they can be prevented or mitigated by deliberate changes in policy at appropriate times.

Possible Mechanisms for Initiating Measures at the Right Time

All possible means of getting employment policies into effect at the right time may be considered as bounded by two extremes. The first, forecasting economic developments well in advance, then planning *ad hoc* the nature and timing of measures to meet the foreseen development, is not a

(Continued on page 28)

*An address by Dr. Hagen before the annual meeting of the American Economic Association, Chicago, Ill., Dec. 30, 1947.

Railroad Securities

During the recent period of improved speculative and investment sentiment towards railroad stocks, Atchison, Topeka & Santa Fe common has been quite active and buoyant. In addition to the general market factors, this stock has been influenced by rumors that once the wage and rate negotiations are over the management will follow the lead of Union Pacific by splitting the stock and increasing the dividend rate. For a considerable time, and at the respective 1947 highs and lows, Santa Fe common had been ranging just about twice the price level of Great Northern stock. Recently Santa Fe has pulled well ahead of that ratio.

Certainly there would be ample justification for looking for an increase in the present $6 annual dividend of Santa Fe a rate that was established in 1942 and has been maintained ever since. The debt structure, the financial strength, the high earnings, and the favorable long-term traffic outlook would all warrant liberalization of distributions. At the same time, it would be logical to expect that if the dividend is increased the management will seek permission of stockholders and the Interstate Commerce Commission to split the stock. A rate of over $6 a share, regardless of the par value of the stock, is just too obviously an indication of prosperity to be politic under present conditions.

Santa Fe is one of that select group of railroads that has reported net income in each year of its corporate life, extending back more than 50 years. Moreover, in all but three years of the present century the road has paid dividends on its common stock. There was a one-year lapse in 1933 and a two-year interruption in 1938-1939. Just prior to the depression, and through 1931, the established rate was $10 a share. For the entire period 1901-1947, inclusive, common dividends have averaged a little better than $5 a share. At recent prices the stock has been selling to afford an income return of close to 6.4% on the current dividend.

In all respects Santa Fe has improved its status materially in recent years. Since the beginning of 1941 the non-equipment debt has been cut by approximately a third. There is now outstanding only about $203 million of mortgage debt, represented by two issues of 4% non-callable bonds. Both of them mature in 1995. At the end of 1946, moreover, there were less than $26 million of equipment obligations outstanding. The entire debt amounted to less than $230 million. In comparison, more than $265 million has been spent since 1940 on new equipment and on additions and betterments to the property. A large part of this was for new equipment, including the largest fleet of Diesel locomotives in the country. To a considerable degree this equipment was paid for out of treasury cash and has already been written off under certificates of necessity.

Despite the retirement of one-third of its non-equipment debt and the large expenditures on equipment and rail property, the road has maintained an outstandingly strong financial position. Net working capital is around $133 million. The present working capital and the gross expenditures on property and equipment since 1940 aggregate very close to $400 million. This is in excess of all capital obligations ranking ahead of the 2,247,060 shares of common stock outstanding. The senior capital, including bonds, equipment obligations, and preferred stock amounts to roundly $354 million, taken at par or face value.

During the past ten years earnings on the common stock averaged $10.69 a share despite heavy excess profits taxes during the war years and a large debit for accelerated amortization in 1945. In 1946 the per share results amounted to $13.52 and they were unquestionably higher in 1947. For the first ten months common share earnings were about $2 ahead of a year earlier. With the anticipated further freight rate increase and traffic prospects favorable (this is true even with a smaller wheat crop), it is not outside the realm of possibility that 1948 earnings could top $20 a share. Moreover, growth characteristics of large segments of the service area augur well for the long term outlook.

Richard F. Abbe & Co. Opens in New York

Richard F. Abbe Company will open offices at 72 Wall Street, New York, on Jan. 2, 1948, to transact a general brokerage and dealer business in investment securities. Richard F. Abbe, the proprietor, was formerly a member of the firm of Van Tuyl & Abbe. Herbert Lacy will be manager of the trading department.

Richard F. Abbe

Chadwick & Slaight Formed in N. Y. City

As of Jan. 2 Taber J. Chadwick and G. Wilmer Slaight are forming Chadwick & Slaight with offices at 111 Broadway, New York City. Mr. Slaight formerly conducted his own investment business under the name of G. Wilmer Slaight Co. Mr. Chadwick was a partner in Carter & Chadwick, which is being dissolved, Mr. Carter leaving the investment business.

Brady, Baird & Garvin To Admit B. Rhaesa

Brady, Baird & Garvin, 115 Broadway, New York City, members of the New York Curb Exchange, will admit Bernard Rhaesa to partnership on Jan. 1. Mr. Rhaesa prior to joining the firm last February was with Avery & Co.

Cites Inflationary Federal Policies

Guaranty Trust Co. of New York in its monthly "Survey" holds, instead of seeking restoration of war powers and new controls, Administration and Congress should undo some of the things now being done or have been done in combating inflation. Cites examples of Federal inflationary policies.

"In the search for effective but relatively safe means of counteracting the upward pressure on prices, it would seem that insufficient attention has been given to the numerous phases of existing Government policy that tend to intensify that pressure. Instead of seeking the restoration of extraordinary wartime powers and casting about for new ones, it would be worth while to inquire how much anti-inflationary effect could be exerted by undoing some of the things that have been and are now being done," according to "The Guaranty Survey," monthly review of business and financial conditions, just published by Guaranty Trust Company of New York.

"In the field of fiscal policy," the "Survey" points out, "the Federal Administration, while opposing tax reduction on the ground that such action would be inflationary, is spending money at the rate of $37 billion annually. Revenues are exceeding the latest official estimates, and it seems possible that the total for the current fiscal year may be as much as $43 billion, leaving $6 billion available for debt retirement. A reduction of expenditures to, say, $31 billion annually would double the surplus or, as a possible alternative, would permit tax reduction of $6 billion and still leave an equal amount available for retirement of debt.

"The present level of expenditure is equal to more than four times the highest yearly outlay during the prewar depression and exceeds by 4½ billion the expenditures for the fiscal year 1942, during more than half of which the nation was at war. It is equal to twice the rate of expenditure in the peak year of World War I. Yet it takes no account of the additional billions that will be required if the present 'stopgap' foreign-aid program and the longer-term Marshall plan are carried out."

Swelling Dividend Payments

Continuing its recommendations, the "Survey" states: "Section 102 of the Federal tax law, which is intended to prevent corporations from accumulating surplus beyond the reasonable needs of the business in order to avoid surtaxes on shareholders, has been administered in such a way as to lead some companies to distribute more of their earnings to shareholders than they believe desirable for fear of incurring severe tax penalties. While accumulating surplus instead of paying dividends is not necessarily anti-inflationary, it may be so if the funds are held in the form of idle cash or bank deposits. By discouraging such accumulations and correspondingly increasing dividend payments, Section 102 has probably contributed in some degree to inflationary tendencies, although the extent of its influence is difficult to estimate.

Federal Credit Policy

"The government is concerned over the expansion of bank credit. Yet its own corporations and other credit agencies, according to the latest official reports, had approximately $7.8 billion of loans outstanding on March 31 of this year,

(Continued on page 36)

The New Look of the Railroads

By MAXWELL B. ROBERTS

With Otto Fuerst & Co., Members, New York Stock Exchange

Mr. Roberts estimates, on the basis of railroad earnings for first eight months of 1947, and under assumed continuation of same volume of traffic, together with allowances for increases in wages and material costs, the 1948 earnings per share of leading railroad stocks under the recent 10% increase in rates granted by ICC.

The increase announced on Dec. 30 by the Interstate Commerce Commission brings attention to the question how the earnings of the various railroads will be affected in the coming year. The ICC authorized the roads, water carriers, and freight forwarders to establish interim freight rates 20% above those charged between January and October this year. This will replace the emergency increase on Oct. 13. The new rates will go into effect probably as early as Jan. 5, and will continue in effect until June 30, or until a date prior to that time when the commission will have had an opportunity to render a final decision as to permanent rates. Contrary to precedent, the Commission pointed out that there was "need for immediate action . . . . without waiting the completion of a further study of the alrge and detailed record before us." Products of the mines were not allowed as high an increase as other commodities, and mine haulage rates will be increased by 20¢ per net ton. The Association of American Railroads estimates the overall increase at 17½%. It must be pointed out that the ICC order requires railroads to be prepared to refund to shippers the difference, if any, between the 20% given and the final rates established on or before June 30.

Maxwell B. Roberts

In order to estimate the possible earnings of the roads for 1948 we have selected the first eight months of 1947 as a base period. We feel that this would lend a degree of conservatism to our estimates because the volume of traffic in this period was somewhat below current levels, and because freight rates and wages had not as yet been raised. Then, too, certain reasonable assumptions must be made. We base our calculations on (1) a continuation of the same volume of traffic experienced in the base period, (2) an estimate that the increases in wages and materials, etc., will amount to a 10% increase in charges, (3) an estimate that passenger traffic will remain at the same levels as in the first eight months of this year, (4) all other factors will remain proportionally the same as in the base period, and (5) "other income" will not increase in 1948, despite the feeling we have that it will. The "other income" of some roads is considerable.

The following tabulation of per share earnings is computed on the above assumptions, without regard to imponderables which cannot be evaluated. Among these might be placed a possible recession in business, a further demand for wage increases, war with the Soviet, etc., etc.:

Atchison Top. & S. F.	$38.30
Atlantic Coast Line	21.75
Baltimore & Ohio (pfd.)	57.75
Baltimore & Ohio (com)	12.30
Chesapeake & Ohio	7.17
Chicago & East Ill. (A)	8.43
Chicago Gt. West (pfd.)	9.70*
Chicago Gt. West (com.)	7.20
Chi. Milw. St. Paul (pfd.)	21.20
Chi. Milw. St. Paul (com.)	6.85
Chicago North West (pfd.)	15.75
Chi. North West (com.)	11.95
Chi. Rock Island (W. I.) preferred	35.10*
Chi. Rock Island (W. I.) common	15.00
Denver R. G. & West (pfd.)	20.20
Common	14.00
Erie R. R. (pfd.)	45.00
Common	6.00
Great Northern (pfd.)	8.55
Gulf Mob. & Ohio (pfd.)	39.50
common	10.50
Illinois Central (pfd.)	184.00
Common	24.50
Kansas City Southern	15.60
Louisville & Nashville	8.75
Minneapolis & St. Louis	6.68
Minn. St. Paul S. S. Marie	3.13
N. Y. Central	8.50
N.Y. Chi. & St Louis (pf.)	50.00
Common	47.00
Norfolk & Western	7.60
Northern Pacific	6.50
Pennsylvania RR.	5.00
St. Louis San Fran. (pfd.)	28.00
Common	11.00
Southern Pacific	25.85
Southern Railway	21.70
Texas & Pacific	16.20
Union Pacific	42.40
West Maryland (I pfd.)	39.70
II preferred	95.00
Common	10.40
Western Pacific	7.75**

*In arrears. **Considering participation of preferred.

F. S. Moseley Opens Philadelphia Branch

F. S. Moseley & Co. announces the opening of its Philadelphia office under the co-managership of Gerry W. Cox and Dudley R. Atherton, Jr. Mr. Cox's previous associations include White, Weld & Co., Goldman Sachs & Co. and Dillon, Read & Co. A member of the Bond Club of Philadelphia, Mr. Cox has been in the investment field since 1922.

Mr. Atherton has been associated with Lazard Freres & Co. since 1939, and prior to that was with Salomon Bros. & Hutzler. He is President-elect of the Philadelphia Securities Association.

Other offices of the firm are located in New York, Boston, Chicago and Indianapolis.

Severance Sales Mgr. For F. Eberstadt Co.

F. Eberstadt & Co., Inc., 39 Broadway, New York City, announce the appointment of Craig Severance as General Sales Manager of the firm. He has been with the firm for some time as Assistant Manager of the syndicate department.

Pizzini Elects Boger And Bradley Officers

B. W. Pizzini & Co. Inc., 25 Broad Street, New York City, announce that Frederick Boger has been elected a Vice-President and Walter V. Bradley has been elected Secretary. Both have been with the firm for some time.

Paul Pryibil Dead

Paul Pryibil, a member of the New York Stock Exchange since 1929, and a broker with offices at 120 Broadway, New York City, died at his home at the age of 49 after a brief illness.

Lessons of Recent Experience in Fiscal Policy

By ALBERT G. HART*
Professor of Economics, Columbia University

Professor Hart sums up as lessons from 1946-47 fiscal experience: (1) economic thinking was unbalanced and lacked objective; (2) existence of a cryptic situation regarding full employment with defective rationalization regarding inflationary and deflationary measures; and (3) need for national leadership to persuade interest groups to accept limitations and compromises in national interest.

The 1946-1947 experience should be able to teach us a great deal. Of course, some of us have proved to be right in stressing inflation dangers and the need of monetary-fiscal counter-measures. Doubtless others of us will eventually be proved "right in their forecasts but wrong in their timing" by a downturn. But something about the situation reminds me of a thought-provoking experience in my boyhood, when I first came to be interested in high school football. Having been firmly indoctrinated with the faith that our team was bound to win, I did not see much of the first quarter; for I stationed myself near the other team's goal-line, where I thought the play was bound to be in a moment. In the second quarter, I found I had a fine view. But it wasn't because my judgment was any better, but just that I hadn't taken all the facts into account. I had forgotten they changed goals at quarter-time!

The last two years are bound to be sobering to any economist who looks back. (A) They show how hard it is to be a participant in current affairs and yet keep enough objectivity to grasp them. (B) They show how cryptic the situation is when we have full employment and suspect a downturn in the offing, and how easy it is in such a period to rationalize the rejection of anti-inflation measures — or to rationalize acceptance of measures which will prove inflationary. (C) They show the need of national leadership which can persuade interest-groups to accept limitations in the national interest.

Economic Thinking Unbalanced

(A) If the period teaches us nothing else, it ought to teach us something about the way our economic thinking is unbalanced by current events and propaganda. The price-control wrangle of 1946 shows only too clearly how we go astray. A few economists yielded to the temptation to ride down the roaring stream of anti-price-control propaganda. Others stiffened where they stood and stuck to the labor-union line. Many were deafened by the clamor, and paralyzed by inability to sort out their thoughts. Even minds which were well ballasted with information were rocked about by the sheer force of assertion of half-truths from one side or the other. And in the end, it seems to me, our economic counsel lost much of its value because it was not properly integrated with political analysis. Most of us were talking on the assumption that if price-control were extended it would be continuously on a reasonably effective basis, and that the public would not take termination to be a practical issue for at least half a year after the extension. But it was in the nature of American politics that the extension bill should reach President Truman's desk at the last minute, and that Congress should offer him a close decision whether to sign it or veto it. It was in the nature of things, also, that speculation on termination of controls would undermine the meat supply, build up the black market, and thus make premature termination unavoidable. By hindsight, we should have advised the President to veto the bill he received, and to announce at the same moment that time had run out and there was no use trying to resuscitate OPA. Before that, we should have made it plain that a last-minute extension was almost sure to fail, and that if agreement could not be reached several weeks before the June 30 deadline it would be better to drop everything but rent control. I am sure that if we called the roll of the Association we could find a good sprinkling of economists who saw this in advance. But somehow the economists who got the best hearing (academically, journalistically and politically) did not manage to get it straight.[1]

Cryptic Character of High Employment Analysis

(B) Ever since early 1946, we have been prosperous but in fear of a recession. By hindsight, a stern anti-inflation policy (refusal of tax reductions, and tight credit) would seem to have been called for. But from time to time anti-inflation proposals have been turned down on the ground that they would take time, and that by the time they really took hold, our problem would be deflation rather than inflation. Inflationary measures (notably wage increases) have been defended on parallel grounds. Those who feared a slump have even been able to argue that the downturn was just past at the moment of discussion—pointing to the stock market slump, or the physical volume of non-durable goods sales, or payrolls deflated by a price index, or latest rumors about evaporation of automobile dealers' waiting lists as indexes of decline which would soon be followed by our general indexes of employment and production.

Now while some economists sized the picture up better than others, and we might all have done better by better-systematized analysis and discussion, it seems to me that we could not have expected to know definite answers. The Council of Economic Advisors were right when they said our prosperity rested on "temporary props." Some of these "props" might have given way and induced a slump. Who can say that more favorable weather (meaning a better coal situation in Britain and elsewhere in Europe, better crops in Europe, and a good corn crop here) might not have changed our export balance and our price situation so as to give us a downturn before this?

This cryptic character of high-employment - with - threatened-recession is not a unique attribute of 1946-47. On the contrary, **it is just the sort of situation a successful policy of economic stabilization would keep us in.** Furthermore, it is more or less characteristic of all prosperities. The

(Continued on page 32)

1 Rereading the CED staff report on the transition (M. G. deChazeau and others, *Jobs and Markets*; New York: McGraw-Hill, 1946), I find a three-sentence paragraph in p. 61 and one sentence on p. 123 in which we urged timely action—but no preview of the dangers of a hiatus in price control, or of termination disturbances. I believe the same criticism would lie against most other economists who had to take a public position at the time.

*From a paper by Prof. Hart before the Annual Meeting of the American Economic Association, Chicago, Ill, Dec. 30, 1947.

Broadening Investments of Savings Institutions—An Aid in Maintaining High Employment

By HOMER JONES*
Economist, Committee for Economic Development

Economist points out laws enabling savings banks and insurance companies to broaden field of their investments, permit these institutions to fulfill their functions as intermediaries in providing an optimum rate of investment for high employment and converts them from mere passive to active participants in capital formation.

During the past decade the life insurance companies and the mutual savings banks in a number of states have gained power to acquire and hold for rent both housing and other investment real estate. There has also been some expansion of their power to acquire corporate stocks.

Homer Jones

Such power in the hands of the financial institutions may permit them to operate more beneficially with respect to optimum investment. In the absence of such power their investments are dependent not only upon their own anticipations but upon those of others as well. We have seen that if their anticipations are more optimistic than those of the businessmen investment will not take place when they can only make loans. But if they can invest in equities, the optimistic view of the future, instead of being an impediment to investment, may result in investment. With this power, a belief on the part of the institutions in a higher future productivity of capital and a higher future level of interest may help investment, not impede it. I do not know whether you find this recent development shocking and radical or not. It does not appear, however, nearly so shocking as government provision of funds for the financing of business, or real investment by government in fields extraneous to the customary areas of government activity.

It is not the intention of this paper to argue that this new power of the financial institutions will provide a complete assurance that the optimum rate of investment will be maintained. I wish only to suggest that it may be able to make a considerable contribution in this direction and that it deserves the serious considerations of economists, legislators and the managers of financial institutions.

When they are restricted to investment in debts the very fact that the managers of financial institutions have favorable anticipations of future capital productivity and interest rates may result in less investment than would take place if they had less favorable expectations. It appears to me that this is a major explanation of the building up of cash balances and failure to use excess reserves by the financial institutions in the past. Power to invest in equities would seem to be an effective way to avoid this situation and give a stimulus to investment at times when it is most needed. If the financial institutions have an optimistic view of the future and can invest in equities, investment will be made which otherwise would not take place. Such investment may be either in business equities such as common stocks or in real property such as the housing projects which the insurance companies have undertaken. Business managers whose view of the future is so pessimistic that they will not be willing to borrow may be willing to issue stock. Financial institutions which have the power to invest in debts, in business equities, and in real property will extend their investments in each so that the anticipated rate of return on each, adjusted for the evaluation of the respective risks involved, will be equated. In the making of real investments, as the life insurance companies and savings banks are doing in their housing developments, financial institutions are not dependent upon the anticipations of any other party.

When debts, equities, and tangible property are all available as outlets for the funds of financial institutions there can be no rational basis for institutional accumulation of cash balances or excess reserves except that they take such a pessimistic view of the future that the calculated risks are uncompensated for by anticipated return in any of the three avenues of investment. When this situation exists it would appear that the institutions would be doing all within their power to achieve the optimum rate of investment.

The equity investments which the intermediary financial institutions have been making and those which they may make if they are given the power to engage in all that they see to be in their interest, should create no difficulty from a liquidity standpoint. In the first place it is not to be expected that by any means all the assets of all the institutions will consist of equities. Second, public policy should make it necessary for the institutions as a whole to experience withdrawals only when the liquidity preference of the public is decreasing an occasion when it should be particularly propitious to dispose of equities. Finally, if institutions under conditions of sagging employment or increasing liquidity preference, the liquidity policy which we have outlined above as necessary in any case would save them from any embarrassment because of their holdings of equities.

Some may feel that the investment in equities by intermediary financial institutions which is now under way and the extension of which I have suggested might be beneficial for the investment process would be in the direction of a reversion to the condition of two decades ago when investment banking and demand deposit banking were rather closely tied together. It is not appropriate at this point to enter into a discussion of the desirability of the divorce which was required in 1933. I am inclined to think that the divorce, as opposed to the correction of some evils of the marriage, was a mistake. But the point here is that the proposals we are making have nothing to do with the matter. Under the old relation the intermediary financial institutions were tied to a process of marketing equities. The proposal here under consideration is one of acquiring equities for long-term investment. The currently developing practice, the extension of which I am here suggesting might have beneficial effects, may also be thought by some to constitute a movement toward the close relation between banking and industry which has prevailed in some of the countries of continental Europe. There is something to this though I think that the analogy is not sufficiently close that European experience can throw any light on the merits of equity investments in our different institutional setting. By and large the continental system was not one of the intermediary financial institutions investing in equities for the long pull but rather one of floating and marketing securities.

Question may legitimately be raised concerning the managerial or entrepreneurial implications of institutional investment in equities. As the life insurance companies and the savings banks extend their housing developments and their other holdings of investment real estate, they become great landlords. They may become dominant factors in the construction industry. Is it desirable for the great financial institutions to become landlords and in effect engaged in the construction business? It is not feasible to enter into an extended discussion of this question here. There has been no substantial public objection to the movement as yet. If the institutions were to invest substantially in common stocks there would be no necessity for a single institution to invest in more than a small portion of the stock of a single large business enterprise. Legal limits on the amount of the stock of a large corporation which might be owned by a single institution would seem to be appropriate. In the case of smaller business enterprises, rather large holdings by a single financial institution might be a small price to pay for a satisfactory new source of equity funds for small and medium sized business.

*From a paper by Mr. Jones delivered at the Annual Meeting of the American Economic Association, Chicago, Ill., Dec. 29, 1947.

A. R. Hughes is V.-P. of Lord, Abbett & Co.

Lord, Abbett & Co., Inc., sponsors of American Business Shares, Inc., Affiliated Fund, Inc., and Union Trusteed Funds, Inc., announce that Albert R. Hughes, formerly President of A. R. Hughes & Co., of Chicago, has joined its organization as Vice-President and Director. The business heretofore conducted by the Hughes organization will be continued by Lord, Abbett at the same address, 120 South La Salle Street, Chicago, under the direction of Mr. Hughes.

Herbert E. Harris is Opening Own Offices

(Special to THE FINANCIAL CHRONICLE)

DAYTON, OHIO — Herbert E. Harris is opening offices in the Winters Bank Building to conduct his own investment business. He was formerly Dayton manager for Skall, Joseph & Miller and prior thereto was an officer of Joseph & Co., Inc.

Bendix, Luitweiler to Admit Geo. Cooksey Jr.

George R. Cooksey, Jr., member of the New York Stock Exchange, will become a partner in the Stock Exchange firm of Bendix, Luitweiler & Co., 52 Wall Street, New York City, on Jan. 1. Mr. Cooksey has been active as an individual floor broker.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

The year 1947 was an eventful year for fire insurance companies. The upward trend in fire losses persisted, premium volume continued to expand, several increases in premium rates were authorized, investment income topped all records, a number of companies acquired additional capital and the industry worked further on the problem of how best to comply with the Supreme Court's decision that insurance is "interstate commerce," and hence subject to the anti-trust laws.

The current market prices of fire insurance stocks, as measured by Standard & Poor's weekly index, are at the same level as they were 12 months ago, the index being 118.9 on Dec. 23, 1947 as on Dec. 24, 1946. During the year the index fluctuated between an extreme high of 126.5 on Feb. 12 and an extreme low of 111.3 on May 28, a range of 15.2 points or 13.7% from low to high. During the past two weeks the index has rallied as follows: Dec. 10, 114.1; Dec. 17, 115.5; Dec. 23, 118.9.

Fire losses in 1947 will set a new annual record; for 11 months they were reported by the National Board of Fire Underwriters at $624,274,000. This is the first time that fire losses in a single year have exeeded $600,000,000. The month by month record for 1946 and 1947 was as follows:—

	1946 ($000)	1947 ($000)	Increase
January	49,808	57,180	14.8%
February	51,759	64,247	24.1
March	53,252	72,435	36.0
April	52,153	68,029	30.4
May	46,094	56,545	22.7
June	44,240	50,840	14.9
July	40,998	49,357	20.4
August	40,019	51,359	28.3
September	40,256	47,990	19.2
October	40,108	54,946	37.0
November	44,706	51,346	14.9
11-Month Total	$503,393	$624,274	24.0%
December	58,094	?	?
Annual Total	$561,487	?	?

It is of interest that the 1947 11-month total exceeds that of 1946 by 24%, which is exactly the same percentage by which the 1946 11-month total exceeded that of 1945.

This column has already pointed to the 30% higher premium volume written during the first half of 1947 compared with first half of 1946. The experience of some of the leading companies was as follows:—

	—Net Premiums Written— 1st Half 1946 ($000)	1st Half 1947 ($000)	Increase
Continental	16,748	24,702	47.5%
Fidelity-Phenix	13,453	20,709	53.9
Glens Falls	8,604	11,554	34.3
Great American	14,038	18,400	31.1
Ins. Co. of North America	20,909	36,035	72.3
National Union	7,707	9,637	25.0
St. Paul F. & M.	13,244	18,960	43.2
Springfield F. & M.	12,821	15,030	17.2

The persistent upward trend in premium volume caused a number of companies to seek additional capital in 1947. Companies which already had high ratios of capital to premium volume, such as Continental, Fidelity-Phenix, Insurance of North America, and St. Paul Fire & Marine, were able to meet the increasing demand for insurance coverage and to expand their business to a substantially greater extent than were companies with low ratios, such as Glens Falls, National Union and Springfield. Important companies which increased capital this year through the issuance and sale of additional shares include the following:—

Name—	Old Capital	Present Capital	Par Value	Increase	Stock of Record
Aetna Insurance	$7,500,000	$10,000,000	10	33.3%	June 18
American Insurance	3,343,740	5,000,000	2.50	49.5	Dec. 1
Camden Fire Ins.	2,000,000	2,500,000	5	25.0	Oct. 22
Glens Falls Ins.	2,500,000	3,250,000	5	30.0	Oct. 6
*National Union	1,100,000	2,000,000	5	81.8	Aug. 25
Prov. Washington	3,000,000	4,000,000	10	33.3	Oct. 16
†Springfield F. & M.	5,000,000	7,000,000	10	40.0	Oct. 6

*Stock split 4 for 1, par changed from $20 to $5. †Stock split 2½ for 1, par changed from $25 to $10.

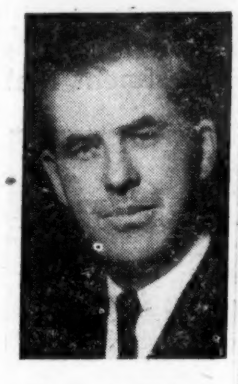
The Insurance Company of North America raised its capital in 1945 from $12,000,000 to $15,000,000, an increase of 25%. Despite this dilution, its stock, after going off in 1945, has performed consistently better than the insurance stock market during the past two years, as measured by Standard & Poor's fire insurance stock index.

According to a tabulation prepared by Alfred M. Best Co., Inc., the stock fire insurance business was provided in 1947 with $52,173,424 additional capital and surplus funds, comprising $14,683,570 capital and $37,489,054 surplus. The list of companies includes the seven companies named above, also, Church Properties Fire Ins. Co., Firemen's Insurance Co., Gulf Insurance Co., Potomac Insurance Co., South Carolina Ins. Co., and Stuyvesant Insurance Co.

Wallace Announces Candidacy

Former Vice-President and Democratic Party leader attacks Administration's bi-partisan foreign policy; universal military training; racial discrimination; and "Wall Street military team." Calls for a policy of "peace and abundance." Wants an understanding with Russia, and opposes Truman Doctrine and Marshall Plan.

Henry A. Wallace, who served as Vice-President for one term under the Roosevelt Democratic Administration, and who was dismissed as Secretary of Commerce by President Truman because of his attacks on the Administration's foreign policy, announced over the radio on Dec. 29 that he "would run as an independent candidate for President of the United States in 1948."



Henry A. Wallace

The text of the address follows:

For the past 15 months I have traveled up and down, and back and forth across this country. I have talked with half a million people in public meetings and with thousands in private gatherings. I have been working for, and I shall continue to work for, peace and security in America, grounded on a foundation of world peace and security.

Everywhere in the United States today, among farmers, workers, small businessmen and professional men and women, I find confusion, uncertainty and fear. The people do not ask, "Will there be another war?" — but "When will the war come?"

Everywhere I find that people are spending so much for food and rent that they cannot afford their customary services from the doctor and dentist. They do not ask, "Will there be another depression?" but "When will the depression start?"

Peace and abundance mean so much to me that I have said at a dozen press conferences and in many speeches when asked about a third party, "If the Democratic party continues to be a party of war and depression, I will see to it that the people have a chance to vote for peace and prosperity."

To those who have come to me asking the conditions of my adherence to the present Democratic Administration, I have said, "Let the Administration repudiate universal military training and rid itself of the Wall Street military team that is leading us toward war."

I have insisted that the Democratic Administration curb the ever-growing power and profits of monopoly and take concrete steps to preserve the living standards of the American people. I have demanded that the Democratic Administration cease its attacks on the civil liberties of Americans. In speeches in the North and in the South at nonsegregated meetings I have stated the simple truth that segregation and discrimination of any kind or character have no place in America.

My terms to the Democratic high command have been well known.

By their actions and finally by their words, they have said: "Henry Wallace, we welcome your support but we will not change our policies."

In answering me, the Democratic leadership also gave its answer to millions of Americans who demanded the right to vote for peace and prosperity. Thus, the leadership of the Democratic party would deprive the American people of their rightful opportunity to choose between progress and reaction in 1948.

So far as the Republican party is concerned, there is no hope—as George Norris, Fiorello La Guardia and Wendell Willkie long ago found out.

When the old parties rot, the people have a right to be heard through a new party. They asserted that right when the Democratic party was founded under Jefferson in the struggle against the Federalist party of war and privilege of his day. They won it again when the Republican party was organized in Lincoln's time. The people must again have an opportunity to speak out with their votes in 1948.

The lukewarm liberals sitting on two chairs say, "Why throw away your vote?" I say a vote for a new party in 1948 will be the most valuable vote you ever have cast or ever will cast.

The bigger the peace vote in 1948, the more definitely the world will know that the United States is not behind the bipartisan reactionary war policy which is dividing the world into two armed camps and making inevitable the day when American soldiers will be lying in their Artic suits in the Russian snow.

There is no real fight between a Truman and a Republican. Both stand for a policy which opens the door to war in our lifetime and makes war certain for our children.

Let us stop saying, "I don't like it but I am going to vote for the lesser of two evils."

Rather than accept either evil, come out boldly, stand upright like men and say so loudly all the world can hear—

"We are voting peace and security for ourselves and our children's children. We are fighting for old-fashioned Americanism at the polls in 1948. We are fighting for freedom of speech and freedom of assembly. We are fighting to end racial discrimination. We are fighting for lower prices. We are fighting for free labor unions, for jobs, and for homes in which we can decently live."

We have just passed through the holiday season when every radio and every church proclaimed the joyous tidings of peace. Every year at this time the hearts of the American people swell with genuine good will toward all mankind. We are a kindly, well-meaning people.

But the holiday season soon passes and one of the first items on the agenda of the new Congress is universal military training. I say the first political objective of progressives is the defeat of this bill which would deliver our 18-year-olds over to the Army and cost the nation two billion dollars a year.

Attacks "War Policy"

The American people read of the fantastic appropriations that are being made for military adventures in Greece, Turkey, China—and billions for armaments here at home. Slowly it dawns on us that these newspaper headlines have stepped into our every-day lives at the grocery store when we pay $1 for butter, 95 cents for eggs, and 90 cents for meat.

We suddenly realize that we can't have all the people of the world getting ready for the next war without paying for it in our daily lives with less food, clothing and housing. War preparations create record profits for big business but only false prosperity for the people—their purchasing power shrinks as prices rise, their needs go unfilled, and they are burdened with new debts.

Yes, corporate profits are over three times what they were in 1939, but every family is paying for our war policy at the grocery store.

Two years ago I denounced those who were talking up World War III as criminals. Of course, the bulk of our people are not criminals, but is is possible for a little handful of warmongers to stampede them. As Mark Twain long ago pointed out:

". . . The nation will rub its sleepy eyes and try to make out why there should be a war and will say, earnestly and indignantly, 'it is unjust and dishonorable and there is no necessity for it.' The handful will shout louder . . . and now the whole nation . . . will take up the war cry and shout itself hoarse and mob any honest man who ventures to open his mouth and presently such mouths will cease to open. Next the statesmen will invent cheap lies, putting the blame on the nation that is attacked, and every man will be glad of those conscience-soothing falsities."

This pattern as Mark Twain saw it 50 years ago is repeating itself on a scale so vast as to threaten the destruction of humanity. The rich monopolists have always been more ready to sacrifice their sons than their money, but now they have reached the point where they are willing to sacrifice both for the sake of world control.

New Party to Fight War Makers

It just doesn't make sense. The time has come for a new party to fight these war-makers. We say that peace is mandatory and that it can be had if we only want it.

Universal military training is the first decisive step on the road toward fascism. We shall fight it to the limit and all Congressmen who vote for it.

A new party must stand for a positive peace program of abundance and security, not scarcity and war. We can prevent depression and war if we only organize for peace in the same comprehensive way we organize for war.

I personally was for the humanitarian aspects of the Marshall plan long before it was announced. Because I saw the postwar need of helping human beings, I was accused of wanting a quart of milk for every Hottentot.

I pushed for help for Greece against the opposition of the Administration eight months before the Truman doctrine was announced. But I have fought and shall continue to fight programs which give guns to people when they want plows.

Fights Truman Doctrine and Marshall Plan

I fight the Truman doctrine and the Marshall plan as applied because they divide Europe into two warring camps. Those whom we buy politically with our food will soon desert us. They will pay us in the base coin of temporary gratitude and then turn to hate us because our policies are destroying their freedom.

We are restoring western Europe and Germany through United States agencies rather than United Nations agencies because we want to hem Russia in. We are acting in the same way as France and England after the last war and the end result will be the same—confusion, depression and war.

It just doesn't need to happen. The cost of organizing for peace, prosperity and progress is infi-

(Continued on page 27)

Truman's Price Control Program

By WILLFORD I. KING
Professor Emeritus of Economics, New York University
Chairman, Committee for Constitutional Government, Inc.

Dr. King lays blame for inflation on government war borrowing and heavy food shipments abroad. Opposes reimposition of price ceilings and wartime controls, and recommends as inflation remedies; (1) raising rediscount rate; (2) reduced bank loans, and (3) new issue of non-negotiable government bonds to redeem indebtedness to commercial banks.

In his radio address on Friday, Oct. 24, President Truman declared: "Inflation must be stopped before it is too late." It is unfortunate that the officials responsible for our Federal finances did not lock the barn before the horse was stolen. Early in World War II, the economists of "The Committee to Keep Prices Down" urged President Roosevelt and Congress to levy taxes sufficient to meet war expenses, but their advice was ignored. Instead, the government borrowed from the banks billions upon billions of dollars. It did this by giving to the banks its promise to pay. It received in exchange bank credits commonly called "deposits" or checking accounts. It then drew checks to pay for services, munitions, food, and thousands of other items. These checks were deposited by the recipients, who later used the deposits thus created to meet their obligations. The process is repeated indefinitely. The deposit currency thus generated now forms a major fraction of our entire circulating medium. It will continue to circulate until the government pays off its indebtedness to the banks.

Willford I. King

When new currency is created without any increase in the supply of goods, demand is strengthened and hence prices rise. It was this currency inflation induced by our government's borrowing from the banks which made the price level advance by leaps and bounds —which cut the purchasing power of the dollar almost in half— which, since 1939 has robbed every owner of a savings account, a life insurance policy, or a government bond of some 46% of his investment.

Fortunately, the government's inflationary orgy ended in 1945. The year 1946 witnessed deflation —not inflation. With the elimination of OPA controls and the resulting increase in production, prices declined. Food prices dropped sharply. True, the United States Bureau of Labor Statistics index registered an advance, but this recording was occasioned solely by the fact that during the OPA regime, the Bureau's figures recorded merely official OPA prices, and many of these applied largely to non-obtainable goods, while the prices actually paid by customers for such articles as meat, or butter were likely to be 50 to 100% above the OPA ceilings.

Recently, however, the price decline following the abolition of the OPA has been succeeded by an upward movement most notable in the case of food prices. It does not take great acumen to understand that, if we send vast quantities of food to Europe, supplies here will be lessened, and that, as a result, domestic prices will rise. Food waste and the feeding of grain to livestock will be stopped far more effectively by this upward price movement than by any amount of preaching and beseeching.

Since food comes first, higher food prices will automatically tend to cut off the ability of consumers to purchase other goods; therefore, if currency inflation is stopped, there will be a tendency for the prices of goods other than foods to fall.

Recently, however, people have become more optimistic than they were in 1946; hence they have been borrowing freely from the banks. As a result, according to the United States "Survey of Current Business" borrowings from reporting member banks rose 41% between August, 1946, and August, 1947. During the same 12 months, the volume of consumer short-term debt grew 38%. This borrowing caused the total of private demand deposits—our principal currency supply—to increase $2.8 billions, or 3.5%.

If the President really wishes to stop this bank-deposit inflation, the following three sound procedures are available:

(1) Raise the rediscount rates at the Federal Reserve Banks.

(2) Reduce the percentages of credit permitted on the various classes of loans made by banks.

(3) Sell to individuals or non-banking corporations non-negotiable government bonds and use the proceeds to pay off some of the government's indebtedness to commercial banks.

Friends of fascism in the CIO and elsewhere are urging the President to reimpose price ceilings and also war-time controls on production and domestic and foreign trade. It is because European nations have such restrictions that they are now begging us for food to avert starvation. To every American having a memory 18 months long, the multitude of shortages existing in the United States before the demise of the OPA should be a warning not to indulge in such folly. If we do, it will soon put us in no position to aid Europe!

It is to be hoped that the President will not make the mistake of following the CIO lead by advocating the lowering of the prices of all goods bought and the raising of the prices of all goods sold. The CIO leaders take this absurd position when they demand higher pay for the workingman's labor while calling for lower prices for all the products of that labor. When one considers the fact that labor is the major item in the cost of most manufactured articles, the ridiculous nature of such a program becomes apparent.

Of course, the labor leaders will ordinarily contend that prices can be reduced by cutting profits. However, according to the United States Department of Commerce, total after-tax corporate profits in the last year amounted to $16 billions out of a net national product of $192 billions—only about 8.4%.

Evidently one cannot get much price reduction by cutting down profits. No one but a communist will contend that our economic machine will run well without adequate profits. The economist knows that high profits mean high capital investment, increased production, and higher wages.

If President Truman is wise, he will turn a deaf ear to the demagogues, and use scientific methods to prevent further expansion of the currency supply. By attacking the problem scientifically, he can be highly beneficial to the nation.

President Scores GOP Anti-Inflation Act

Calls measure feeble and inadequate and expresses fear prices will go higher. Says failure of voluntary program would leave Government helpless to protect interest of the people.

Although announcing on Dec. 28 he would sign the anti-inflation bill passed by the Republican Congress in the last days of the special session, President Harry S. Truman at the same time released a statement in which he criticized the measure "as a feeble step toward the control of inflation," and called for the next session to enact a more stringent measure in line with his recommendations. The text of the President's statement follows:

President Truman

I am signing Senate Joint Resolution 167 with a sense of deep disappointment that the Congress has seen fit to take such feeble steps toward the control of inflation.

At a time when nearly everyone in this nation is feeling the pressure of exorbitant prices the Congress has enacted a bill that is pitifully inadequate as a weapon against the high cost of living.

I sign the bill reluctantly, but feel that I must do so because it contains some measures that are needed now.

On Nov. 17, 1947, I recommended to the Congress a 10-point anti-inflation program. I emphasized that all 10 points were essential to an effective program to win the battle against inflation.

Senate Joint Resolution 167 contains appropriate legislation with respect to only three of the 10 points that were recommended. And these three points are of minor importance compared with the others.

This bill fails to include the key measures which are essential to an effective anti-inflation program.

This bill will not reduce the high cost of living and it will not keep prices from going even higher.

The meager authority contained in the bill will be utilized to the fullest extent by the government, but the public must not be misled into believing that this bill will do the job.

I would be shirking my responsibility if I did not protest against the obvious insufficiency of this legislation.

The three points out of the Nov. 17 10-point program which this bill covers are: Extension of export controls, extension of allocation authority over transportation facilities and equipment, and authorization for expansion of the Department of Agriculture program of encouraging conservation practices in this country and authorization of measures designed to increase the production of food in certain foreign countries. The bill also includes authority to limit the use of grain for distilled liquors, but only for a period of five weeks.

The bill contains in Sections 2 and 6 provisions which are not in accord with my recommendations. These provisions are of doubtful value at best. If they are used as an excuse for delaying the enactment of a sound anti-inflation program, they will do far more harm than good.

Section 2 undertakes to authorize a system of voluntary agreements among businessmen for the allocation of transportation facilities and equipment, for the allocation and inventory control of scarce commodities, and for the regulation of speculative trading on commodity exchanges. These agreements, if approved by the Attorney General, would be accompanied with an exemption from liability under the anti-trust laws.

As the report of the Senate committee on this legislation pointed out, "it should be definitely understood that this part of the program is purely voluntary. No representative of industry, business and agriculture would be compelled to consult with the President. Neither would they be compelled after consultation to enter into any agreement."

The inability of the government to protect the interest of the people under this section is apparent. If the members of an industry refuse to make an agreement, there is nothing the government can do to see that a program is developed for that industry.

If the members of an industry reach an agreement which is inadequate or contrary to the public interest, there is nothing the government can do to improve it.

If some members of an industry refuse to enter an agreement, or refuse to carry it out when it has been made, there is nothing the government can do to assist the public-spirited members of the industry to make the agreement effective throughout the industry.

Every effort will be made, of course, to achieve whatever results are possible under this system of voluntary agreements. It is far too late in the fight against inflation, however, to place our main reliance upon voluntary action.

Efforts to obtain voluntary action by businessmen have already been extensively tried. Repeatedly during the past year I have urged voluntary price reductions. Other government officials have attempted in many conferences with business leaders to persuade them of the necessity for making voluntary price reductions. While these efforts to obtain voluntary price reductions have produced some results, they have been wholly insufficient to stem the tide of rising prices.

The government has also made intensive efforts to encourage conservation practices which help to reduce inflationary pressures. These efforts have accomplished much good, but they have demonstrated that voluntary measures are not sufficient to insure a fair sharing and the most effective use of vital commodities which are critically scarce.

The voluntary methods authorized by Section 2, in the absence of reserve powers to back them up, can therefore be expected to accomplish little.

Another part of the bill which gives me great concern is Section 6. This section proposes that the President submit to the Congress extremely detailed and specific recommendations for mandatory conservation measures for scarce commodities. Presumably the Congress would then determine in each case whether the conservation measures proposed by the President should be adopted, and what the details of the measures should be, and pass legislation authorizing them to be put into effect.

It has long been an established practice for the Congress to enact regulatory measures in general terms, leaving it to the administrative agencies to determine when the measures should be applied on the basis of the standards and conditions established by the Congress. This has proved to be a practicable and workable system. Section 6 of this bill now proposes substantially to reverse this historic process.

Under the provisions of this section, the recommendations which the President is to submit to the Congress can be prepared in the prescribed manner only when the need for mandatory conservation measures is so acute that they should be put into effect immediately.

Under the normal operation of our governmental system, when an administrative agency had made this kind of determination, it would put the measures into effect at once. But the only course of action authorized under this section is for the President to submit recommendations to the Congress.

Even if the Congress should pass legislation in accordance with the recommendations it would take considerable time. Then, it would still be necessary to establish the administrative machinery which would put the conservation measures into effect.

If rationing were authorized, for example, it would still take some months to print and distribute the necessary forms and documents. Furthermore, lengthy Congressional discussion of specific controls would invite speculation, hoarding, dumping, and other actions to circumvent whatever program might be established.

If the procedure under Section 6 is to be relied upon for dealing with critical shortages, it is hardly possible that effective measures can be taken in time.

The 10-point program which I presented to the Congress on Nov. 17 requested basic authority to deal with inflation. It included a request for authority to regulate consumer credit and business credit; authority to regulate the distribution of scarce commodities which basically affect the cost of living or industrial production; authority to extend and strengthen rent control; and authority to utilize, on a selective basis, rationing and price control for essential cost-of-living items and essential industrial products.

The bill which the Congress has enacted fails to include any of these necessary elements.

During the six weeks since I addressed the Congress on Nov. 17, and pointed out the alarming course of inflation, prices have continued to rise.

When I spoke to the Congress, a pound of butter in Washington, D. C., cost 88 cents. Last week, here in Washington butter reached a new high price of $1.05.

In the last six weeks, men's street shoes in Pittsburgh have gone up from an average of $8.72 a pair to $9.38.

In the same period the price of hogs in Chicago has risen from $24.75 a hundred pounds to $26.40

A few days ago in Omaha the price of steers reached a new all-time high of $40 a hundred pounds.

Since Nov. 17 the price of gasoline has risen in Los Angeles from 21.5 cents a gallon to 23.3 cents.

Inflation and the high cost of living confront the American people—all the American people —with a grave danger. Unchecked inflation can bring on a serious depression that can cause untold hardship.

The legislative and executive branches of the government must work together if this grave peril is to be conquered.

The American people look to the Congress to pass legislation adequate to perform this all-important task.

I trust that when the Congress returns it will promptly enact an effective, workable program.

Mutual Funds

By HENRY HUNT

We Predict

Now is the time of year when economists, business and financial executives join Drew Pearson in a veritable avalanche of predictions. The beauty of making forecasts for a year ahead is that if you're wrong, nobody remembers a year later what you said, but if you're lucky enough to be right, you can remind your followers of the accuracy of your predictions. Thus, with little fear or trepidation, we will play the "game of the week" and predict the following for the coming year:

(1) That net corporate earnings in 1948 will be at least 10% **below** the 1947 total.

(2) That stock prices, as measured by the Dow-Jones Industrial Average, will sell at least 10% **above** the 1947 high, probably during the first half.

(3) That sales of mutual fund shares will exceed the 1947 total but will be below the 1946 volume.

(4) That sales of balanced funds and income type funds will continue in good volume.

(5) That sales of bond and preferred stock funds will decline and sales of common stock funds will pick up.

(6) That more latitude will be allowed mutual fund sponsors in newspaper advertising.

(7) That fewer new mutual funds will be opened for public offering than has been the case during the past year or two.

(8) That the present wide spread between yields on high grade bonds and common stocks will narrow.

(9) That sales efforts will have to be intensified during 1948 in virtually every field.

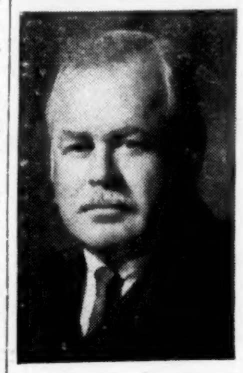
(10) That, barring death, we will all be one year older on Jan. 1, 1949.

We wish every one and all of our readers a Happy and Prosperous New Year.

Russia Wins Again

According to **"These Things Seemed Important,"** published by **Selected Investment Company of Chicago**, "Russia played her cards for a capitalistic depression in the U. S. Now that the U. S. depression is obvious to everyone, Russia proudly announces: bring your rubles to the bank; we will give you one new one for each 10 you now own."

M.I.T. Elects



Ralph Lowell

Ralph Lowell, **Chairman and President of the Boston Safe Deposit and Trust Co.**, was recently elected to the Advisory Board of **Massachusetts Investors Trust** to succeed James L. Richards, retired. Mr. Lowell is a Board Member of Harvard University, a Director of the John Hancock Mutual Life Insurance Co. and a Trustee of the Massachusetts General Hospital.

Richest People on Earth

Thanks to oil, the Osage Indians in Oklahoma are the wealthiest people per capita in the world.

Contributed by a 10-Year Old

(Q) If the king sits on gold, who sits on silver?
(A) The Lone Ranger.
(Q) What is the difference between a Scotchman and a canoe?
(A) A canoe tips.

All Time Highs

According to **"Steel Facts,"** published by the **American Iron and Steel Institute**, the following 1947 production figures present new all time highs:

Trucks	1,200,000
Vacuum Cleaners	3,000,000
Bicycles	2,000,000
Stoves and Ranges	4,400,000
Washing Machines	3,500,000

New records were also set in the farm equipment field which sold $1,200,000,000 in 1947. The auto accessory business set a new record with sales of $2,500,000,000.

A Hillbilly in a Looking Glass

A hillbilly found a mirror that had been lost by a tourist. He stared at it, fascinated and curious. "Wal, fly mah bones," he muttered to himself. "Ah never knowed my dear ol' pap had his picture took."

Placing the mirror in his pocket, he went home, sneaked past his wife into the house and hid it in a box. The wife wondered what he was up to and when he had gone out again she went into the room and fished out the mirror.

Looking at it, she gasped: "So that's the ole hag he's been runnin' around with."

Stand-off

The following figures, which represent the closing averages for the Dow-Jones Industrials, speak for themselves:

Dec. 31, 1946	177.20
Mar. 31, 1947	177.20
June 30, 1947	177.30
Sept. 30, 1947	177.49
Dec. 31, 1947	181.16

NSTA Notes

DALLAS BOND CLUB

The following officers have been elected by the Bond Club of Dallas:

President—James F. Jacques, First Southwest Co.
Vice-President—Charles C. Pierce, Rauscher, Pierce & Co.

James F. Jacques

Charles C. Pierce

Treasurer—Jack P. Brown, Dallas Union Trust Co.
Secretary—Herbert M. Jones, Dallas Rupe & Son.
Directors—M. F. Hartman, Merrill Lynch, Pierce, Fenner & Beane; Barron McCulloch, Barron McCulloch, Fort Worth; Judson S. James, James & Stayart, Inc.

SECURITY TRADERS ASSOCIATION OF NEW YORK, INC.

The Security Traders Association of New York is distributing to its members a form letter which has been approved for use by broker-dealers when effecting exempt transfers of securities. The form of certification has been approved by the New York State Tax Commission and the Treasury Department, but the New York State Tax Commission has granted its authority to use the certificate only to dealers in securities maintaining a regular place of business in the State of New York.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Charles E. Fuller, Jr. of Duluth, a limited partner in Thomson & McKinnon, will become a general partner as of Jan. 1. John A. Reis, general partner, and Hedwig G. Reis, limited partner, retired from the firm on Dec. 31.

Berkeley W. Jackson withdrew from partnership in Mallory, Adee & Co. on Dec. 31. James Edmund Orr retired from partnership in Chas. E. Quincey & Co. on Dec. 31. Edward C. Anderson withdrew from partnership in Scott & Stringfellow on Dec. 31.

Thomas H. Stonborough retired from partnership in Shields & Co. on Dec. 31.

Harry H. Knight retired from partnership in Newhard, Cook & Co. on Nov. 30.

Jerome Hill, partner in Moore, Leonard & Lynch, died on Dec. 21, 1947.

With A. M. Kidder & Co.

MIAMI, FLA.—Cyril H. Haas is with A. M. Kidder & Co., Alfred I. du Pont Building.

Budget and Tax Adjustments for Prosperity and Depression

By RICHARD A. MUSGRAVE*

Formerly Chief of Government Finance Section, Board of Governors of Federal Reserve System

Dr. Musgrave discusses budget deficits and surplus as means of checking inflationary and deflationary tendencies. Describes "compensatory mechanism" of tax rates and public expenditures, and workability of a "built-in flexibility" of fiscal policy. Stresses importance of having adequate and effective mechanism by which expenditure levels or tax rates may be put into effect promptly.

The objectives of public revenue and expenditure policies go beyond their traditional service and redistribution functions. Budget policy also is vitally important as a positive instrument of economic control. It is this latter function which is usually referred to as fiscal policy and with which this discussion is concerned.

After 15 years of debate, the principles of fiscal policy are well established. The argument in its barest outline is (1) that high employment and price level stability require aggregate expenditures just sufficient to take the high employment output, valued in current prices, off the market; (2) that this condition is not met automatically in our economy where private demand is subject to violent swings and where severe deflation or inflation may prevail for sustained periods; and (3) that compensatory budget policy offers a convenient device for holding total expenditures fairly close to the proper level. By providing incentives for private outlays or adding more to the income stream on the expenditure side of the budget than is being withdrawn on the revenue side, deflation may be counteracted; by deterring private outlays or withdrawing more than is being added, inflation may be curbed. While born and reared in an environment of deflation and unemployment, the principles of fiscal policy apply no less to the boom and war economy.

These propositions may be qualified or stated in different terms, but most would accept their essential logic. Our time will be spent more profitably, therefore, if we proceed at once to certain issues of implementation which are more controversial.

Adjusting the size of deficit or surplus is the core of compensatory finance. If there is a need for checking inflation, the deficit should be reduced or the surplus be raised; if there is a need for checking deflation, the surplus should be reduced or the deficit be increased. While some tax revenues may be less deflationary than some loan receipts, this is not the usual case and we shall be safe to assume that changes in surplus and deficit will be reflected directly in a change of disposable income and private demand.

Whether the question is one of moving in the direction of greater surplus or deficit, the required compensatory effect may be accomplished by acting upon the level of public expenditures or the level of tax rates. During the depression of the thirties when the early discussions of compensatory policy occurred, compensatory action was visualized largely in the form of deficit spending, implying the need for an absolute increase in the expenditure budget. By now it is recognized that anti-deflation measures may also take the form of tax reduction.[1] Similarly, inflation may be met either by lowering expenditures or raising tax rates.

This is not to say that the choice between the two approaches is a matter of indifference. The leverage effect per dollar of deficit (or the negative leverage per dollar of surplus) will differ with the technique used. If the deficit dollar reflects an increase in public expenditures on goods and services, the leverage will be greater than if it reflects transfer expenditures or tax reduction, unless the beneficiary's marginal propensity to consume is unity which is unlikely. Under conditions of inflation, similarly, reduction in public expenditures will be more effective, per dollar of surplus, than increase in tax rates. Also, there may be substantial differences between the two approaches arising from other than compensatory considerations. These may well be decisive. Under conditions of acute depression, for instance, relieving immediate distress is no less important than providing for general income leverage, and until these combined objectives are met, relief or public work outlays are preferable to tax reduction. Under conditions of war time inflation, reduction in public expenditures, even though more helpful as an anti-inflation device, may not be feasible, so that reliance has to be placed upon tax adjustments. But granting these differences between the two approaches, it is more important for our purposes to note that the compensatory objective can be operated in either way.[2] The distance between Chicago and Cambridge is less than appears at first sight.

The two-dimensional character of the compensatory mechanism is important, because it permits us to dissolve a latent conflict between considerations of compensatory finance and considerations of optimum allocation of resources. Consider briefly a model of rational compensatory policy. Public expenditures, in such a model, would be planned on the basis of their usefulness, relative to that of alternative (public or private) outlays. This allocation planning would be done on the assumption that resources are fully employed and tax rates would then be adjusted so as to provide such deficit or surplus as is needed to maintain high employment and prevent inflation. It is evident that there would be no make-work projects of any kind in such a system. Depending upon the availability of flexible projects, there would be, however, cyclical adaptation of expenditures within the basic blue print of the longer run program.

Actual policy, of course, will not fully comply with the rules of our model. Difficulties of pre-

1 As a matter of theoretical interest, it should be noted that expansionary action may be obtained also by an equal increase in tax yields and expenditures, and contractive action by an equal reduction of both sides of the budget. A compensatory policy could thus be operated with a balanced budget. However, this proposition is of little practical interest. See my discussion of alternative approaches to budget policy in "Alternative Budgets for Full Employment," in *American Economic Review*, Vol. XXXV, No. 3, June, 1945, p. 397.

2 It is assumed that the initial level of taxation is sufficiently high enough in the depression case so that the problem can be met within the available scope of tax reduction to a zero level. While this was not the case in the '30s, it is a realistic assumption for, say, the next decade. This is one of the advantages of a large budget.

*From an address by Dr. Musgrave before the Annual Meeting of the American Economic Association, Chicago, Ill., Dec. 30, 1947.

(Continued on page 35)

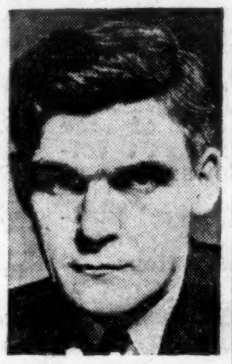
Can American Dollars Save Europe From Communism?

By HON. JOSEPH H. BALL*

U. S. Senator from Minnesota

Though not opposing Marshall Plan, Sen. Ball expresses doubt whether it will buy off Communist aggression. Denies Congress has right to put aid on humanitarian basis and says assistance cannot be termed an international investment. Questions some items in interim aid, and warns we cannot spare heavy grain exports. Holds our foreign policy has failed badly and urges an offensive in place of defensive strategy against Russia.

The genesis of the Marshall Plan was two sentences in a speech by Secretary Marshall at Harvard last June, in which he suggested that it was about time Europe tried to help itself, and that then we might feel better about helping them. Sixteen nations met at Paris and did two things. First, they decided on a level of living standards for the 200 million people in their countries for the next four years and a level of production they would like to achieve by the end of the four years, in most cases considerably above prewar levels. Then they estimated how much of the materials to reach these goals they could supply themselves and the deficit, $22 billion, is the Marshall Plan, so-called.



Senator Jos. H. Ball

Of course that is not a plan at all, in the sense that it includes any specific and detailed series of projects to increase Europe's production. Reports are that the first figure was $29 billion. Will Clayton persuaded the nations to lop $7 billion off, and our own Harriman Committee cut it several billions more. But there is still no plan that anyone can get his teeth into. What is sought, apparently, is authority for the Administration to spend from $4 to $6 billion a year for the broad purpose of "European recovery."

Although I am critical of such a vague proposal to spend more American billions in the same way that $12 billion have been spent unsuccessfully in the past two years, let me emphasize here that I have no quarrel whatever with the fundamental premise of the Marshall Plan.

A free and economically solvent Europe is a sound objective of our foreign policy; it would be tremendously to our advantage, and if substantial assistance from us stands a reasonable chance of achieving it, then the expenditure is justified on the basis of national self-interest. But I do want assurance that our expenditures stand at least a 50-50 chance of achieving results, and I am very certain that if the Administration is left free to pursue the policies it has pursued in the past, it will fail again. Therefore, I believe Congress must insist on some severe restrictions and conditions on any future grants of funds or authority.

Will It Buy Off Communism?

One of the major arguments by the proponents of this plan is that unless we extend this aid, Europe will be taken over completely by the communists. In other words, we must buy off communist aggression with American dollars.

Granted that severe economic distress provides more fertile ground for communist treachery, that argument still does not jibe with facts. Nowhere have the communists ever taken control of a country through the free choice of the people, whether the people were hungry or not. Always the communists have been a minority, usually a small one, which seized power by naked force, usually with the backing of the Red Army. Then the communists proceed to exterminate all political opposition, liquidate freedom, and bleed that country to the limit for the benefit of Soviet Russia. The people are always worse off than before.

That is what has happened in one country after another in Eastern Europe. With that horrible example of what communist dictatorship means right next door to them, is it logical to assume that the peoples of Italy, France, or any other country, will freely choose that course out of their troubles, regardless of how serious these may be? I cannot believe it. To use a favorite metaphor of the Marshall Plan proponents, that is like saying that a man whose house is burning will pour gasoline on the flames unless you help him carry water.

I agree completely that communist dictatorship and aggression are the most serious threat to both world peace and recovery today. But it is a threat based on power and force. The 50-odd Russian divisions in Eastern Europe have a lot more to do with it than economic problems in Western Europe. Like the Nazi dictator, the communist dictator will be finally stopped in his aggressions by the presence, or if worse comes to worst, by the use of superior force. It is just as dangerous and wrong to try to fool the people into believing that we can buy off communist aggression with dollars as it was to try to appease Hitler.

It has been argued that if we attach conditions to future loans and grants, we will not only spoil the effect of our gifts, but that we would be accused of interfering in the internal affairs of the countries we help. Being an international Santa Claus is becoming a bit too expensive, and as for interfering with their affairs, they don't have to take our money if they don't want it, and maybe it's time somebody did do a little interfering. They don't seem to be managing so well by themselves.

Not an Economic Investment

No aid program can be put on a humanitarian basis, deeply as we may feel about Europe's plight. Congress has no power under the constitution to appropriate public money for charity abroad and we would violate our oaths if we acted on that basis. Likewise, our assistance cannot by any stretch be termed an economic investment. If conditions in Europe were such that these expenditures would be a sound economic investment, there would be no need for government to step in. Private capital would do the job.

The only basis on which Congress can act is that our aid to Europe will advance the interests, national welfare and security of the United States. This is a political program, and must be such to be constitutional. Therefore it is perfectly sound to attach to it any conditions which we believe are necessary to achieve those political objectives, with the recipient countries always free, of course, to turn down our help if they don't like the conditions.

What should those conditions be? I can suggest a few. It is now costing American taxpayers at the rate of over $700 million a year to support the economy of the British and American zones in occupied Germany. All studies of the problems there that I have seen agree that an integrated economic and political administration of at least the three western zones in Germany is essential if German production is to be increased enough so its people will at least be self-supporting, let alone repay these sums or pay any reparations. France has consistently opposed unification of even the western zones in Germany. We can understand her fear of a strong Germany, but our own generals are convinced they can prevent any rearming of Germany while increasing her production so she is self-supporting. Shouldn't we insist that France, as a condition of participating in future aid, go along with us on an integrated administration of Germany?

Britain would be one of the heaviest participants in the Marshall Plan under the Paris report. Personally, I am convinced, and the record bears me out, that a free economy will always out produce and provide a higher standard of living for all the people than either a socialistic or government-planned and controlled economy. I believe that when economic freedoms are liquidated, the other freedoms are in jeopardy and the socialists have always had too much in common with the communists for my taste. I don't know how long Britain's socialist government can continue to fool their people by subsidizing their cost of living at the rate of $1,600,000,000 a year, and I rather resent it that some part of our loan has gone into that kind of fiscal legerdemain. But I would not for one instant think of trying to tell the British people what kind of government they should have or even making that a condition of our help.

Coal the Bottleneck

However, their own production is absolutely essential to Europe's recovery. Even at best, we can carry only a small fraction of the load. One of the key bottlenecks to European recovery is lack of coal, and a major part of it is due to the fact that where Britain used to export 10 to 15 million tons of coal a year to seaports on the continent, she is now a coal importing country. America has to make up part of the European deficit, and our coal delivered costs us $26 a ton. The rest is taken from the current low production in the Ruhr, requiring long rail hauls over a transport system that is near the breaking point. In the opinion of many, a resumption of British coal exports to the continent is absolutely essential to the success of any European recovery program. Why shouldn't we then insist that as a condition to participation in an aid program, Britain supply, month by month, a million tons of coal a month for export to the continent of Europe? We would not tell England how to mine the coal. That is her problem. But we would insist that somehow she achieve the production essential to the success of the whole program, so that our help

*An address by Sen. Ball before the Philadelphia Foreign Policy Association, Philadelphia, Pa., Dec. 13, 1947.

(Continued on page 34)

Canadian Securities

By WILLIAM J. McKAY

The European Recovery Plan, the U. S. Dollar Conservation Program, and a possible "Hyde Park" Plan can all make notable contributions towards a quick solution of Canada's current economic problems. But Canada's greatest assurance not only of recovery, but also of dynamic progress, is her tremendous wealth of virgin natural resources in a world of increasing basic shortages. Added to which is the native quality of prudent management and a capacity for energetic labor stimulated by a stern but invigorating climate.

Already the shadow of things to come is perceptible. Following the belated recognition of the necessity of a greatly increased population, the Canadian Government is now taking the intiative to accelerate the flow of desirable immigrants as a step in the direction of a fuller exploitation of the Dominion's dormant riches. Also under the impulsion of the U. S. dollar shortage the Dominion and provincial authorities are planning ambitious programs for the domestic production of items previously imported from hard-currency areas. The spade-work for such development has already been accomplished as a result of U. S.-Canadian private enterprise. Notable preliminary success has rewarded these efforts in the case of oil, natural gas, and iron. In Alberta the new Leduc oil field promises to be one of the most important discoveries in recent years, and the iron deposits situated in Northern Quebec and Labrador are likely to replace the Mesabi Ridge as the ultimate reserve for the steel industry of North America. Canada has already become an exporter of iron ore from the Steep Rock deposits of Ontario and plans are now under way for the piping of natural gas from the vast reservoirs underlying the plains of Alberta to the U. S. Northwest.

The Dominion also promises to become the world's leading producer of aluminum, thanks to its unrivaled reserves of low-cost hydro-electric power. Elsewhere, as a result of the phenomenal demand for electrical power following sharp increases in population and the use of electrical apparatus in innumerable forms in every home, the power problem is becoming increasingly acute. Thus it can be foreseen that Canada will ultimately be called upon to supply urgent requirements south of the border, in addition to becoming the natural home of industries which require large-scale electrical power.

Thus Canadian plans for domestic development are likely to prove to be complementary to the eventual industrial requirements of this country in fields hitherto contemplated. Until recently the Dominion has been considered principally as a leading exporter of farm and forestry products base and precious metals, asbestos, and gypsum, with almost complete reliance on this country for essential imports of oil, coal and manufactured goods. Now if the present plans are fully realized the Dominion will not only be almost entirely self-supporting, but it will also be in a position to furnish many essential industrial requirements of its great southern neighbor.

During the week activity in the securities market remained at a low ebb, but the recently improved tone was well maintained in both the internal and external sections. Free funds also staged a belated recovery, and it was demonstrated that this market is just as thin on the upside as it is in the other direction. Stocks likewise were firm with western oils well to the fore, led by Home Oil, East Leduc, and Calgary and Edmonton. The golds also were stronger on a growing realization that the recent gold industry relief measures will be more beneficial than previously estimated.

Caulfield Partner in Oehler & Sanford

Charles E. Caulfield has been admitted to partnership in the firm of Oehler & Sanford, accountants and management consultants, 92 Liberty Street, New York City. Mr. Caulfield has been associated with Wall Street for more than 30 years and is a specialist in stock brokerage accounting. For a number of years he was cashier of Frazier Jelke & Co. and was auditor and comptroller for Harriman & Co., both members of the New York Stock Exchange.

In 1937, after several years with the public accounting firm of Haskins and Sells, he became a mining engineer and engaged in heavy construction and tunnel work. He is the author of several professional papers dealing with the use of high explosives and underground work.

Associated with him will be Christian Oehler, C.P.A., for many years identified with the public accounting firm of Haskins and Sells and at present a Professor of Accounting at Fordham University.

The firm will engage in a general accounting, business management and tax practice. Mr. Caulfield will continue to specialize in stock brokerage audits and examinations.

To Be Snedeker & De Bard

On Dec. 31, DeWitt J. Manheimer retired from partnership in Manheimer, Snedeker & De Bard, 52 William Street, New York City, members of the New York Stock Exchange, and as of Jan. 1st the firm's name becomes Snedeker & De Bard.

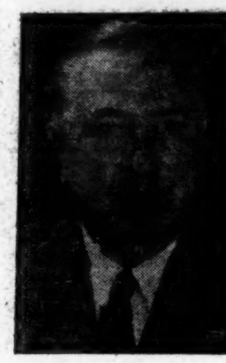
N. D. Biddison Co. Admits

Joseph M. McHugh will acquire the New York Stock Exchange membership of Harold B. Cahn and on Jan. 8 will become a partner in N. D. Biddison & Co., 115 Broadway, New York City, members of the New York Stock Exchange.

Reports Business Upswing Declining

Business Survey Committee of National Association of Purchasing Agents, however, says concensus of purchasing executives is high rate of business activity will continue through first half of 1948. Reports further price rises.

The year-end report of the Business Survey Committee of the National Association of Purchasing Agents, headed by Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Corporation, reveals that there is a slight falling off of the business upswing which began in August, but prices are still rising and indications are for continued good business through mid-1948. The text of the report follows:



Robert C. Swanton

General Business Conditions

The top of the business upswing, which began in August, was reached in November. The December reports of purchasing agents show a falling off in the number reporting increased sales and production, but there is an increase in those maintaining their high levels. Only 9% recorded lower activity and much of this was due to the passing of seasonal peak demand.

As the year ends with a high rate of business activity, the consensus of purchasing executives is that it will continue good for the first six months of 1948. Few would comment beyond that period. Some believe a tapering off in volume by the end of the second quarter will be experienced. The optimistic view is based on demand shown in the present backlogs of orders and definite production schedules. These forecasts, however are invariably hedged with conditions. The most important hinge on proposed government controls, export demand for aid to Europe, new wage demands and government buying policy, any of which may affect prices and availability of goods.

Commodity Prices

Prices continued strong, with many advances reported. The over-all picture has not changed too noticeably, upward freight adjustments and discount withdrawals causing most of the increases. That many sellers foresee higher prices is evidenced by the reappearance of escalators. Many of these price-adjustment provisions are more palatable than the "blank check" escalators prevalent a year ago. Buyers feel that much of the stability gained in the past several months has been lost, but they look for growing production and competition to relieve this situation.

Inventories

Industrial inventories remain about the same as in November—no notable increases or decreases reported. A few comment there is "unbalance because of steel shortage." Some deliveries of material now available have been deferred until after the first of the year. A little overstocking is noted, to protect against price increases or allocation. In general the policy continues to hold inventories at the lowest possible operating levels. The year ends with most inventories in that position.

Buying Policy

The prevailing policy on forward commitments is 90 days and less, for materials that can be definitely scheduled within those limits. 82% are still within this range. Some items might get longer scheduling if not held back by the trend to uncertain pricing. Extreme caution on long-term commitments is advised.

Specific Commodity Changes

Many items increased in price and became tighter in supply, during December. Pricewise, most increases were due to freight rate adjustments. The heavy demand of the past few months brought others into near-critical supply conditions.

Increases were reported for: Fatty acids, abrasives, aluminum castings, bearings, conveyor belting, cellulose nitrate, extras on non-ferrous metals, carbon black, ethylene glycol, vegetable oils, steel forging ingots, fuel oil, gasoline, glycerine, hides and leather, lubricants, lumber (mixed), machine screws, some papers, zinc oxide, titanium, platinum, plywood, portland cement, potash salts, sucker rods, steel rolls, rope, rubber, solvents, several textiles, tin, tires, wiping cloths.

Becoming hard to get: Aluminum, antimony, building materials, scrap iron and steel, lead, pipe. Steel is still the bottleneck in many industries.

Only a few price reductions are reported: Formaldehyde, mercury, nitric acid, soap, tallow, sulphuric acid, trisodium phosphate.

In easier supply: Asbestos, asphalts, brass products, steel castings, soya oil and copper wire.

Employment

The high rate of employment reported in the past six months continues; expected to drop off following the Christmas rush. Industrial pay rolls are expected to continue at the present peak for some time. Strike talk is in the air in several areas, but nothing definite at this time.

Canada

General business has not increased in the past month, but remains at the high level previously reported. Purchasing agents are jittery, awaiting clarification of the Canadian Austerity Program. Prices are up, due to import restrictions, import taxes and the rush to buy goods which may not be available in the future. Employment high. Buying policy remains in 30-to-90-day category, where delivery schedules permit.

Peru Extends Exchange Offer on Its Sterling Bds.

The Republic of Peru announced on Dec. 30, 1947, through its Consul General in New York City, Federico Elguera, an offer to resume service on outstanding sterling bonds of the following loans:

Peruvian National Loan, 6% External Sinking Fund Gold Bonds, Second Series, dated Oct. 1, 1928, due Oct. 1, 1961 (Sterling Bonds).

Honorable Provincial Council of Lima Municipal Loan of 1911, due 1965 (Assumed by Republic of Peru 1919).

Under the offer, holders of outstanding sterling bonds will be entitled to exchange such bonds for new External Sinking Fund Dollar Bonds of 1947, Series E, at the rate of $4 principal amount of new bonds for each £1 principal amount of outstanding sterling bonds. The new bonds will be dated Jan. 1, 1947, and will mature Jan. 1, 1997. Interest on the new bonds will accrue from Jan. 1, 1947, and bondholders depositing their bonds for exchange will be entitled to receive at the time of the exchange cash in the amount of coupons maturing prior to the date of the exchange.

In addition, upon the delivery of new bonds under the offer, exchanging bondholders will be entitled to receive a cash payment at the rate of 3 cents for each £1 principal amount of outstanding bonds exchanged, representing the difference between the exchange rate of $4 per £1, on the basis of which new bonds will be issuable under the offer, and the official International Monetary Fund dollar-pound exchange rate of $4.03 per £1.

Interest on the new bonds will be payable at the following rates for the years indicated: 1947 and 1948, 1%; 1949 and 1950, 1½%; 1951 and 1952, 2%; 1953 and thereafter, 2½%. A cumulative sinking fund will be provided for these bonds in the amount of $48,842 per annum during the period that the offer is open for acceptance and thereafter in an amount equal to 5% per annum of the aggregate principal amount of new bonds issued under the offer.

Terms of the offer to the holders of the sterling bonds are substantially similar to terms of the offer published by the Republic on June 26, 1947, addressed to the holders of its outstanding dollar bonds.

Concurrently, the Republic is announcing the extension of the offer to the dollar bonds until Dec. 31, 1948 instead of June 30, 1948, the date originally fixed.

The new bonds of Series E to be issued under the sterling offer will rank equally with the bonds of Series A, B, C, and D, issuable under the dollar offer and bonds of all of such series will be treated as one issue for the purpose of the payment of service thereon. The cumulative sinking fund referred to above will be in addition to that provided for in connection with the bonds issuable under the dollar offer.

There has been deposited with Central Hanover Bank and Trust Company the full amount of the interest due July 1, 1947 and Jan. 1, 1948 on the new bonds and the full sinking fund installment with respect to such period.

Since a substantial amount of the sterling bonds are believed to be held in the United Kingdom, the Republic intends, subject to applicable United Kingdom regulations, to make arrangements whereby bonds may be received for exchange under the offer at the London office of the exchange agent, which is Central Hanover Bank and Trust Company.

Concurrently, the Republic also announced that the board of governors of the New York Curb Exchange has approved the application of the Republic to list the new bonds issuable under both the dollar and sterling offers, subject to the effectiveness of the application which has been filed for registration of the new bonds under the Securities Exchange Act of 1934.

In connection with the dollar offer, the Consul General of Peru made reference to a statement issued by Secretary of State Marshall on June 26, 1947, with reference to the adjustment of the Peruvian dollar bonds, the text of which is as follows:

"I have been told of the offer by the Government of Peru to resume service on an adjusted basis of its defaulted external obligations under provisions of its law promulgated on March 14, 1947. It is very gratifying to have this evidence of an effort to resolve a situation which has existed for over 15 years."

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Manufacturers Trust Company of New York announces that Jan. 2, will mark the 25th anniversary of the establishment of its office at 799 Blake Avenue, Brooklyn. This office was originally opened as a branch of the **State Bank & Trust Company** on Jan. 2, 1923. In 1929 when the State Bank was merged with Manufacturers Trust Company, this location was continued as a branch office of the latter bank and has been known ever since as its East New York Office.

* * *

Central Hanover Bank & Trust Company of New York announces the election to the office of Vice-President of Robert M. Lovell and Kenneth S. Walker. Both are in the Personal Trust Division, Mr. Lovell at the Main Office and Mr. Walker at the Plaza Office. The following were promoted to Assistant Vice-President: W. L. Barnard, J. P. Flynn, Edward M. Henry, Dwight A. Horne, W. H. Miller, William B. Nauts, Charles J. Seidl, H. A. Streller, Gilbert H. Weale and G. A. Wolf.

On Wednesday afternoon on Dec. 24, the 80-voice chorus of Central Hanover Bank & Trust Co. sang a group of Christmas songs. The chorus met in the Board of Trustees room and sang their carols under the baton of Craig S. Bartlett, Vice-President. In order to bring the music to the bank's staff at its New York branch offices, the music was transmitted over telephone lines, picked up in the branches, and amplified over the public address systems there.

* * *

Arthur S. Kleeman, President of **Colonial Trust Company of New York**, announced on Dec. 24 the following promotions: James J. Fleming, to Assistant to the President, Lionel C. Perera and Charles A. Grace, to a Assistant Vice-President, Louis W. Peterson and Walter H. Hume, to Assistant Secretary and Assistant Treasurer, and Alexander Kent, to Assistant Trust Officer.

* * *

Regulations for the reclassification of Reserve City Banks, were issued by the Federal Reserve Board on Dec. 24. Originally intended to go into effect on Jan. 1, the effective date has been deferred until March 1 next and the regulations are scheduled to continue for a 3-year period. The reclassification was decided upon by the Board, it was noted in the New York "Sun" of Dec. 26, after a long period of discussion and hearings, it was further noted in the "Sun" that it will add one or two new reserve cities, but will discontinue that status for more cities than will be added to the list. The "Sun" likewise said:

"The net effect of letting some cities drop back to the country-bank level, so far as reserve requirements are concerned, will reduce slightly only 14% reserves and reserve city banks must keep 20%. The Board considers this issue a distinct one from its policy of restricting reserves, and appears to have acted by demand of member banks in the cities affected. Those banks that do not like to be relegated back to country bank levels—and there have been many—may continue to enjoy reserve city status if they and all their neighbor banks vote unanimously in favor of continuing has reserve city banks."

In special advices from its Washington bureau on Dec. 24 the "American Banker" said:

"It is noted that under the Federal Reserve Act the Board is empowered to reclassify or terminate the designation of reserve banks.

"Moving under the recently passed Administrative Agencies Act, which provided for hearings on contemplated regulations, the Board listened to protests of banks and members of Congress whom bankers asked for support.

"Bankers of Topeka, Kans.; Kansas City, Kans.; Pueblo, Colo.; St. Joseph, Mo.; Galveston and Waco, Tex., expressed fear that their banks would be reassigned to the status of 'country banks,' in the testimony given before the Board, and indicated that they were apprehensive that they would lose prestige as banking institutions. Senators Millikin and Johnson, of Colorado; Donnell, of Missouri, and representatives of the districts involved, were among the Congressmen who expressed views."

Also from the "American Banker" Washington advices, Dec. 24, we quote:

"A number of cities which protested reclassification of their status as reserve city banks will be allowed to continue in that status under the Federal Reserve Board regulations issued today.

"At the same time one bank which did not wish the reserve city classification will be brought in effective March 1, next year.

"The following are declared classified as reserve cities: City of Washington, D. C. and every city, except New York and Chicago, which is situated a Federal Reserve Bank or a branch of a reserve bank — New York and Chicago are central reserve cities.

"Also classified as reserve cities will be 'every city in which on the dates of official call reports' for the two years ended June 30, this year, 'member banks of the reserve systems, exclusive of their offices in other cities' were qualified under the formula set-up.

"In addition, classified as reserve cities, will be the 11 cities of Columbus, O.; Des Moines, Indianapolis, Milwaukee, St. Paul, Lincoln, Neb., Tulsa, Okla., Wichita, Kans.; Fort Worth, Tex., Cedar Rapids, Ia., and Sioux City, Ia.

"Added is National Stock Yards, Ill. . . . To be dropped unless the 'role of unanimity' prevails under which reserve status is requested by all member banks are the 12 cities: Toledo, O., Dubuque, Ia.; Grand Rapids, Mich., Peoria, Ill., Kansas City, Kans., Pueblo, Colo., St. Joseph, Mo., Topeka, Kans., Galveston and Waco, Tex.; Ogden, Utah and Spokane, Wash."

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Joseph P. Delaney, Vice-President and member of the board of directors of the **National City Bank of Troy, N. Y.**, died on Dec. 16. The Albany "Times Union" states that Mr. Delaney, a veteran of World War I, joined the National City Bank after 30 years of service with the Manufacturers National Bank of Troy, and was Cashier of the latter when he left it.

* * *

If stockholders of the **Corning Trust Company of Corning, N. Y.**, approve, the **Lincoln Rochester Trust Company of Rochester, N. Y.** will take over the Corning institution the current month, it was stated in the Rochester "Times-Union" of Dec. 23. The advices therein also said in part:

"Directors of the Corning bank already have approved the sale, with a stockholders' meeting set Jan. 12. The move will give the Lincoln Rochester its 15th office.

"The Corning bank has assets of $9,640,909 and deposits of $8,830,930. Ellsworth B. Gore, President of the Corning bank, will continue as the branches' executive officer. The Corning Trust would be liquidated under the agreement, with stockholders receiving cash."

* * *

John A. Barry was elected Vice-President of the **Second National Bank of Boston**, at a meeting of the directors on Dec. 18. Mr. Barry was heretofore Assistant Vice-President and Trust Officer, it was noted in the Boston "Herald" of Dec. 19 which added that J. Phillip Smith, formerly Assistant Trust Officer, was appointed Trust Officer and Guy Garland was appointed Assistant Cashier.

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Frank M. Mason, for many year Secretary of the **Providence Institution for Savings of Providence, R. I.** and associated with the bank for more than half a century, died on Dec. 15. Mr. Mason who was 83 years of age, enterec the employ of the institution in 1888; on Oct. 2, 1922 he was namec Secretary and Clerk, it was statec in the Providence "Journal" o Dec. 16.

* * *

The Hudson Trust Company o Union City, N. J. paid a stock dividend of $16\frac{2}{3}$% payable in common stock on Dec. 19 to holders of record Dec. 18. This dividend increases the outstanding stock from 165,000 shares to 192,500 shares, and the capital fron $990,000 to $1,155,000. The pa value of the common stock is $(per share.

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The election of Ernest E. Blauvelt as President of the **Second National Bank of Paterson, N. J.** on Dec. 23, by unanimous choice of the directors was made knowr in the Paterson "Morning Call" which observes that Mr. Blauvelt the eighth President of the institution during the 95 years of its history, started with the bank as a teller 37 years ago. The same paper says that:

"Born in Paterson and a resident of the city throughout his entire life. Mr. Blauvelt is the son of the late William D. Blauvelt, who served the Second National as President from 1903 until his death in 1930 and was one of the outstanding bankers of his time."

Editorially the "Morning Call" Dec. 26 commented on the fact that as the government owned the preferred stock in our banking institutions issued in the early years of the depression, boards of directors accepted co-operatively in the past 15 years, the National administration's recommending, under the New Deal policy the executive heads of National banks, "although reluctant to see their merit promotion system thus pigeon holed"; the "call" added that "for the time being local bank directors could do little more than hope for the speedy return of prosperity which would enable them to pay off their preferred stock yoke and thereby restore their old freedom of action." "One of the first banks to fulfill that objective," says the "Call" was our city's oldest banking house — viz., the Second National Bank. It goes on to say that with the year just closing, a vacancy was created in the Presidency, through the resignation of Carvel C. Linden, to accept a position in the West, and the opportunity presented itself to the rejuvenated bank to elevate its senior officer, Ernest E. Blauvelt, to the President's chair. Mr. Blauvelt who had previously served as Cashier, was elected Vice-President and Cashier on Aug 31, 1931; he subsequently vacated the office of Cashier, and on Jan. 10, 1946 he was named First Vice-President; he had in the meantime become a director.

* * *

Through the sale of $100,000 of new stock, the **First National Bank in Garfield, N. J.**, has increased its capital from $200,000 to $300,000, according to the weekly bulletin of the Comptroller of the Currency. The enlarged capital became effective December 11.

* * *

The board of directors of the **Corn Exchange National Bank and Trust Company of Philadelphia**, has made the following promotions in the official staff effective Jan. 1: Paul D. Williams from Comptroller to Vice-President and Comptroller; James J. Mickley, George J. Watts, Jr. and Gasper Wister, from Assistant Cashiers to Assistant Vice Presidents.

* * *

The Philadelphia "Inquirer" of Dec. 20, noting the recent election of Herbert W. Goodall, formerly President, to the office of Vice-Chairman of the **Tradesmen's National Bank & Trust Co. of Philadelphia**, stated that Howard A. Loeb will continue as Chairman, a position he has held since the merger of Tradesmen's with Guarantee Trust & Safe Deposit Co. in 1928. As indicated in our issue of Dec. 25, page 2644, James M. Large, formerly Executive Vice-President, has succeeded Mr. Goodall as President.

* * *

John E. Potter, founder, and for more than 25 years, President of the **Potter Title & Trust Co. of Pittsburgh, Pa.**, died on Dec. 20. He was 84 years of age. To quote from the Pittsburgh "Post Gazette" of Dec. 23 the company was chartered in 1902 as the Potter Abstract Company and in 1907 it became the **Potter Title and Trust Company**, with Mr. Potter as President. The advices also said:

"In 1913 the firm was expanded to include a trust department in addition to the general banking facilities and in 1919 it became a member of the Federal Reserve system." Mr. Potter retired in 1934 because of ill health. The present President is H. R. Hosick.

* * *

Stockholders of the **Title Guarantee and Trust Company of Baltimore, Md.**, which recently announced plans to discontinue banking, trust and safe-deposit activities, have ratified an agreement with the **Union Trust Company of Maryland at Baltimore**, whereby the latter is to take over these abandoned services. The foregoing is from the Baltimore "Sun" of Dec. 24, from which we also quote:

"In announcing the decision of the stockholders, Guy T. O. Hollyday, President of the Title Guarantee and Trust Company, said the Union Trust will take over 'our line of deposits, our trust accounts and the safe-deposit facilities and accounts at the close of business this Saturday.' Elmer B. McCahan, Jr., counsel for the **Fidelity and Deposit Company**, was yesterday chosen a director of the title firm, Mr. Hollyday also announced."

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The First National Bank of Waukegan, Ill., has increased its capital from $250,000 to $300,000 through the sale of $50,000 of new stock.

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The election of Dudley E. Binyon of Cleveland, O., as Vice-President of the **Mercantile National Bank of Dallas, Tex.**, was announced on Dec. 20 by President, Milton F. Brown according to the Dallas "News" of Dec. 21, which reports that Mr. Binyon has been associated with the **Society for Savings Bank of Cleveland**, since 1932. He will assume his duties with Mercantile Jan. 2.

* * *

On Dec. 20 the **Anglo California National Bank of San Francisco**, opened its new East Oakland Office at East 14th Street and 35th Avenue, it was announced by Allard A. Calkins, President. Constructed of reinforced, concrete, the building has one story and mezzanine and contains approximately 5,500 square feet of floor space. The new office renders a complete banking service. Robert A. Smale, Assistant Vice-President of the bank, is Manager, and Roy M. Hansen, Assistant Manager. With the opening of its East Oakland Office, the Anglo Bank has 24 offices in 13 Northern and Central California communities.

Realism and Progress

"The year 1947 was only the second full year of peace after the most terrible and all-encompassing war of all time.

"We could not have expected that this period, in the immediate aftermath of a world catastrophe, would be free of troubles.

Trygve Lie

* * *

"Yet we have been disappointed in the greatest hope of all—the hope that the great powers would be able to move, definitely and progressively, toward an understanding on the questions which divided them.

* * *

"During 1948 we must continue to hope for a change in the tide of disagreement between the powers, so that we may be allowed to move more swiftly forward in settling our problems. We must never give up hope for an agreement and we must never stop working for it."—TRYGVE LIE.

Yes, it is reasonable to hope for gradually reduced violence in disagreements among the major powers as time passes, and perhaps the development of some sort of modus vivendi which would make it possible for the snarling to cease or, at the least, to abate.

Possibly, the best way to promote such progress is to give up the grandiose ideas of a new Heaven and a new earth, with which the United Nations has been plagued from the first.

Carlisle & Jacquelin Admit

Carlisle & Jacqelin, 120 Broadway, New York City, members of the New York Stock Exchange, will admit Oliver E. Miles to partnership in their firm on Jan. 8th.

Securities Salesman's Corner

By JOHN DUTTON

First of a Series of Articles Concerning the Training of Security Salesmen

The Investment Banker's Association recently admitted that efforts to educate new men and bring them into the sales departments of retail security firms has resulted in almost complete failure. In Boston, where the project was undertaken, the men who took the training course discovered that they could not earn a living selling securities and they gave it up after a year's trial.

Admittedly, learning to sell securities these days is not easy. Many experienced men find it difficult to earn a substantial living under prevailing conditions. Nevertheless, there are men who do sell securities and make a good living out of it. The reason they do it is that they use the right technique and have the energy to back up their efforts.

Many of the misconceptions regarding training of new men for the job of security salesmen stem from the fact that they stress education along the lines of statistics, economics and such, in too great an abundance. This type of education has its place. No experienced salesman would argue that you could have too much theoretical knowledge. But as a primary working tool that is going to be useful in actually getting new men into production, theoretical knowledge should be placed far down on the list. This may not meet with the concurrence of those who hold the opinion that selling securities is a lofty mental exercise and that security salesmen should always be like the investment counsellor who never fails to have the right answers to everything. But this is not what it takes to sell securities. It is alright to know as much theory, background and economic lore as you can acquire (and keep on learning it too), but if you know such things THEY ARE ONLY TOOLS TO BE USED WHEN YOU NEED THEM. Often it is better sales strategy to keep what you know about such matters to yourself—that is, if your purpose is to sell securities.

There are many other factors that must be stressed if you are going to develop real producers who can make a living today selling securities. If you have a realistic, common sense, plan it should not be too difficult to take men who have never sold securities in their lives and get them into solid production in much less time than one year. Three months ought to do it; less in some cases. Such a plan we will present in detail in this column as this most important subject is developed. For the time being, however, the main point which is important is that theory and book learning concerning the finer points of investment PROCEDURE should be a part of every salesman's training course—but a minor part.

Instead of theory and training in economics and investment procedure, the first thing new salesmen should learn is HOW TO GAIN CONFIDENCE. If I were training salesmen today to go out and do business (and that is what they are supposed to do, isn't it?), I'd teach them how to BUILD CONFIDENCE until it came out of their ears. I'd teach them to keep it SIMPLE. I'd show them how to talk to people in plain language that everyone understands, and you can't do this if you think in terms of a walking statistical manual.

Any man who can CREATE CONFIDENCE can sell securities providing he has two other things: PROSPECTS AND THE ABILITY TO MEET THEM UNDER FAVORABLE CIRCUMSTANCES. His firm can provide him with the prospects and his training course should teach him how to meet people under favorable circumstances. These things are not involved. They don't require any super intelligence. Every man who is making a success selling securities today knows what he has to do to meet people under favorable circumstances. But I wonder how many firms now faced with the problem of training new men place sufficient emphasis upon these two vital "Musts" that each salesman should know how to accomplish if he is going to make money selling securities. He can read all the book lore written about investment but if a salesman doesn't know (1) how to gain and hold the confidence of the people on whom he calls; (2) if he doesn't have good prospects in the first place, and (3) if he doesn't know how to meet these prospects under favorable conditions, he won't make enough out of his job to pay for his training course.

Next week the second article on this subject will deal with training new men in creating confidence. Without this ability all else is futile.

To Acquire NYSE Seat, Name Be Pett & Morris

SALT LAKE CITY, UTAH—F. Russell Pett, partner of Ure, Pett & Morris, 23 East Second South Street, will acquire the New York Stock Exchange membership of the late Andrew Hazlehurst, and as of Jan. 8 the firm's name will be changed to Pett & Morris. Other partners are Thornton D. Morris, Stuart B. Pett, J. Arthur Pett, Malcolm E. Pike, Horace S. Howell, Helen E. Perkes, general partners, and Ethelyn C. Pett and Nola P. Morris, limited partners.

The firm also holds membership in the Salt Lake City Stock Exchange.

Roderick Moore to Be Branch, Cabell Partner

RICHMOND, VA.—Roderick D. Moore on Jan. 1 will become a partner in Branch, Cabell & Co., 814 East Main Street, members of the New York and Richmond Stock Exchanges. He was formerly an officer of C. F. Cassell & Company, Inc., of Charlottesville.

Prescott & Co. to Admit Robt. O. Shepard

CLEVELAND, OHIO—Prescott & Co., Guardian Building, members of the New York and Cleveland Stock Exchanges, will admit Robert O. Shepard to general partnership and William Pendleton Palmer, Jr. to limited partnership on Jan. 8. Mr. Shepard is President of Hawley, Shepard & Co., the corporate affiliate of Prescott & Co. In the past Mr. Palmer was a limited partner in Prescott & Co.

Colonial Trust Co. Announces Promotions

Arthur S. Kleeman, President of the Colonial Trust Company of New York has announced the following promotions: James J. Fleming to Assistant to President; Lionel C. Perera and Charles A. Grace, to Assistant Vice-Presidents; Louis W. Petersen and Walter H. Hume, to Assistant Secretary and Assistant Treasurer; and Alexander Kent, to Assistant Trust Officer.

McDonnell & Co. to Admit Five New Partners

On Jan. 8 Charles Edward McDonnell, Donal P. McDonnell, Robert E. McDonnell, Jr., T. Murray McDonnell, and William P. O'Connor, Jr., will be admitted to partnership in McDonnell & Co., 120 Broadway, New York City, members of the New York Stock Exchange. Mr. O'Connor has recently been doing business as an individual Curb floor broker, and in the past was a partner in McDonnell & Co.

Sage with John Barbour

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Orland C. Sage, formerly with Blyth & Co. and E. F. Hutton & Co., has become associated with John M. Barbour & Co., Citizens Bank Building, Pasadena.

John B. Townsend Dead

John Barnes Townsend, who retired in 1926 as an associate of Drexel & Co., died at his home at the age of 82.

Survey Indicates No Recession Expected in First Half of 1948

National Industrial Conference Board reports great majority of executives forecast increased sales in period with smaller changes in physical volume of shipments.

Continued high levels of demand and further gains in sales during the first half of 1948 are looked for by the great majority of business executives surveyed by the National Industrial Conference Board on the business outlook. Most of these estimated increases in dollar sales are attributed to higher prices, and much smaller changes are forecast in the physical volume of shipments or production.

In a number of industries r[illegible] gains in outout are reported "possible, since nearly all available capacity has been fully utilized for some time." In some others, raw material shortages (especially steel) and less frequently labor shortages prevent increased activity. In another smaller segment of industry, the demand situation is not expected to warrant increased output.

Demand Prospects Favorable

For all industries combined, however, demand prospects are "favorable." Some further increases in plant capacity will occur during the next six month as programs instituted after the end of hostilities are completed. Very little new building is scheduled to begin in 1948. Many companies, are, however, continuin to modernize and retool their plants in an effort to reduce production costs.

No Recession Anticipated

Considerable diversity of opinion is expressed as to the course of general business activity during 1948. Generally, however, no recession is foreseen in the first half of the year, and many businessmen expect continued high levels for the entire year. Some executives contend that the peak was reached in 1947 and that 194[illegible] will witness the start of a downward trek.

In submitting estimates and forecasts, businessmen call attention to the numerous uncertainties in the business picture, with particular emphasis placed on the indefinite effects of the Marshal Plan. The progress of inflation and its uncertain effect on buying is also frequently mentioned. Considerably less concern is expressed regarding labor unrest than a year earlier, but some executives expect another round of wage demands.

Sales Forecasts

Slightly more than 60% of the executives cooperating in the survey anticipate increases in sales in the first half of 1948 as compared with the corresponding period of 1947. Nearly 22% see little or no change ahead, and slightly less than 17% expect a decrease in sales volume as compared with the first half of 1947.

Primary producers and metal manufacturers are, on the whole, slightly more optimistic than other manufacturers. The machine-tool builders are the principal exception. A greater number of them look for no change or a decline in sales rather than for an increase. Some consumer nondurable goods industries are also considerably less optimistic than the average.

Material and Labor Supplies

While the material supply situation shows improvement over a year ago, slightly more than 40% of the executives report that their companies' needs are not being fully met. Steel is most frequently mentioned as being in short supply and limiting the volume of production.

Other Materials in Short Supply

Among a number of the secondary effects of the steel shortage is a scarcity of transportation equipment and pipe in the oil industry.

Other materials often mentioned as in short supply include castings, pig iron, some electrical supplies and equipment, coke, certain chemicals and steel scrap. Shortages of paper and fuel oil have also been encountered by some companies. A few manufacturers fear that they may be hampered by a power shortage during the coming six months. In some commodities, quality is reported as being not as high as desired.

The Labor Picture

Material shortages are regarded as a greater obstacle to increased output than labor shortages. Slightly over one quarter of the executives report labor supplies as inadequate as compared with more than 40% who say that they are hampered by insufficient materials.

Break-Even Points Up

Break-even points, as has also been noted in previous surveys by the National Industrial Conference Board, have reached such high levels in many instances that moderate sales declines would completely wipe out all profits. Many manufacturers, however, fear that the upward spiral in wage costs will continue next year, as strong pressure will be brought for higher rates as a result of the advance in living costs this year.

Plant Expansion Picture

Capital expenditures of varying amounts to increase capacity and modernize plants will be made by about 40% of the companies during the first half of 1948. New capacity which will be added largely represents further progress on work started in 1947 or 1946. The majority of programs will have been completed by the middle of 1948 or soon thereafter and very few new programs are now scheduled to get under way in 1948.

Demand Prospects

Demand prospects for the next six months are generally favorable. Approximately three-fifths of the manufacturers see new orders exceeding production, while about half that number expect demand and production to be in balance. As for the remainder, the prospect is that new orders will fall below the level of production, with the consequent reduction in backlogs.

Backlogs of Orders

Many companies enjoy backlogs which will permit them to produce at current high levels for months to come, and substantial amounts of additional business appear to be in sight. However, the experience of a few producers during 1947 indicates that backlogs "can dwindle very rapidly" under adverse conditions. In numerous industries no backlog of unfilled orders is normally built up because of the nature of the product or the buying habits of customers.

Joins Sills, Minton Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — S. Albert Ackerman has become associated with Sills, Minton & Co., Inc., 209 South La Salle Street, members of the Chicago Stock Exchange. Mr. Ackerman in the past was with G. Brashears & Co. of Los Angeles, and prior thereto was a partner in Ackerman Bros. of Chicago.

NAM Holds Tax Reduction Is Not Inflationary

Contends reduced taxes would aid in fighting inflation, since private citizens would be enabled to save more, while, on other hand, money received by government from taxes is currently spent. Sees tax cuts as means of reduced government spending.

Tax reduction is not inflationary, the National Association of Manufacturers declared in a statement released on Dec. 21.

Tax reduction would aid in fighting inflation, the NAM explained, because private citizens would save some of the money left in their possession by the tax cut, while the government spends nearly all of its funds on salaries, benefit payments and in other ways which create demand for consumer goods.

Taking issue with those persons who say tax reduction would be inflationary because it would leave taxpayers with more money to spend, the NAM said taxation, in itself, is neither inflationary nor deflationary. Collecting taxes and spending the money, it was pointed out, merely transfers funds from the citizens to the Treasury and out again, without either increasing or decreasing the supply of purchasing power.

Tax reduction would combat inflation though, the NAM said, because taxpayers will save part of the taxes remitted rather than spend the whole tax cut on consumer goods.

As regards spending, the NAM cited figures to show that the private citizen has a better record than the government. In the calendar year 1946, according to national income data compiled by the Department of Commerce, 17% of total private expenditure consisted of foreign and domestic investment while 83% was for consumption.

In contrast with this use of income by private citizens, the NAM pointed out that on a comparable national income basis, the Federal Government spent more than $36 billion in the calendar year 1946, of which only $835,000,000, paid out for new construction, can be definitely identified as non-consumption expenditure. A huge portion of the Federal payments, it was stated, goes for salaries to workers not engaged in productive industry and to buy supplies of various types.

A tax cut that would make it necessary to reduce excess Federal personnel, the NAM continued, would act indirectly as a check on inflation by diverting dismissed employees into private jobs where they would be producers as well as consumers.

"This is the best possible time to make large-scale separations of Federal personnel," it was added. "There is a strong, active market in private employment for additional workers. The wages earned by erstwhile Federal employees would be matched by a contribution to the total of produced goods and services."

The proportion of income that would be saved as a result of tax cuts would vary according to the level at which the cuts were made, the NAM declared. The more fully the reductions were concentrated in the lowest income groups, the smaller the savings would be, it was said, whereas tax reduction in the upper and middle brackets would increase savings greatly without having much effect on consumer spending. That is because, it was explained, persons with middle and upper-bracket incomes could devote to saving all or practically all the money saved from taxes.

"No tax reduction can be directly inflationary," the NAM asserted. "It can be indirectly inflationary only when government deficits are being financed through bank credits.

"When the budget is balanced, every dollar remitted to taxpayers through tax reduction means a dollar less that the government can spend in one way or another; i.e., on current operation or on debt retirement.

"If the tax cut results in less retirement of bank-held debt, the effect is to slow down the deflationary trend. But to slow down this trend, or even to halt it entirely, is very different from creating fresh inflationary pressure."

European Currency Reform Essential to Marshall Plan Success

(Continued from page 6)

an important part in European life.

Another argument advanced against devaluation is that it would make more difficult the repayment of loans already made by the U. S. because more of the foreign currencies would be required to obtain the given amount of dollars. This argument, besides being academic, as a serious effort to repay us is quite remote, is fallacious. Repayment can be made only in goods and services and the amount of dollars credited will be determined, not at all by the exchange rates prevailing, but by the dollar price level for those goods and services in the U. S.

The British Position

The British, who are most opposed, point out that a drop in the dollar value of the pound would increase the cost to their industry of imports from the U. S., while, at the same time, even if other countries devalue proportionately, their industry's return from re-exports would remain unchanged. It is probable, however, that the price of British products in other countries which devalued would rise as a result of the increased cost of obtaining U. S goods, in many instances competitive. British industry also would be stimulated to export directly to the U. S. by reason of the greater profits obtainable and its initial disadvantage might soon be more than offset by these factors.

When the present official exchange rates were adopted, it was believed that after a year or so European recovery would progress to a point where the rates would be justified. Unfortunately, this has not occurred. Inflation in Europe has exceeded our own by a considerable margin, leaving their real prices far above ours and their currencies, in relation to the dollar, high and dry. And inflation in Europe, as to a lesser degree in the United States, is a result, not only of the shortages of goods, but of too much money; too small supply versus too big demand. To attempt to remedy the shortages without controlling the supply of money will be futile.

Natural Basis of Exchange Rates

The free exchange value of one currency in relation to another depends upon the relationship of free commodity prices between the two countries. If goods in one country are relatively more expensive than in another, the former's currency is overvalued in terms of the latter's. Subsidies, price controls, and rationing may attempt to conceal the distortion, but black markets and the smuggling of goods and currency reveal the true picture.

It is no longer possible to measure the increase in commodity prices in Europe. If an Englishman, for example, wants two pairs of shoes and is rationed to one pair at £2 ($8.06) and he must pay £4 ($16.12) to get a second pair in the free market, is the real price of shoes $8.06 per pair? Is it $16.12? Or is it half the total he pays for the two pairs or $12.09 per pair? The price indices say $8.06. In many cases prices reflected in the official indices are held down by means of subsidies. Wheat and flour imported from the U. S. are sold below cost. To the extent that the subsidies are financed by currency issue or bank credit, the inflation of uncontrolled and black market prices, usually not represented in the indices, is increased.

The condition of the exchanges itself has retarded recovery abroad. As long as the French for example, can convert 100 francs to $0.84 and as long as they can buy less for 100 francs in France than they can in the U. S. for $0.84 they will prefer to convert and to buy here. A stimulant to their home industry will be wanting and their export industries will be handicapped, as they are now, by the high dollar value of the official franc.

This applies equally to Britain and other European countries. The rapid exhaustion of the British loan can be traced in a large part to the high level at which sterling and the currencies of nations to whom Britain owed money have been pegged. Had our goods not appeared so cheap to those other nations in relation to their own, they would not have been so anxious to convert their sterling balances to dollars in order to buy in this country, thus nearly exhausting the credit. Is it any wonder that, in these circumstances, our program of aid to Europe has been ineffective and now promises to cost billions more than was anticipated? Certainly it should be no surprise that these countries have tried to spend the dollars we make available to them as rapidly as possible when they can live much more cheaply on dollars than on their own currencies. It has not encouraged them to help themselves and it has swollen our own inflation with tremendous export demand. In fact, unless the loans cease or the currencies are deflated, our price level eventually will rise to theirs.

Devaluation No Cure-All

Devaluation is, of course, no cure-all. Its benefits are contingent on sound fiscal policies including very strict control over the expansion of currency and credit. Under these conditions, it would increase prices in Europe of goods imported from the U. S. to a point where their own incentive to produce and sell those goods would be stimulated naturally. They would realize the hugeness of the amounts they are spending and asking for and the difference between what they can and cannot afford. They would be able to look forward with more confidence to exporting to the U. S. Consequently, the burden on ourselves might be lightened considerably.

Joins Paine, Webber Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Ralph R. Maloney, formerly with Robert F. McMaster & Co., has now become associated with Paine, Webber, Jackson & Curtis, 209 South La Salle Street.

With D. B. Peck & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Donald W. Hart has become connected with D. B. Peck & Co., 208 South La Salle Street, members of the Chicago Stock Exchange.

Will Britain Deflate?

By PAUL EINZIG

Dr. Einzig, noting deflationism is again advocated in some quarters in Britain, contends if policy is adopted, it would lead to reduced production and unemployment, and, since volume of goods would decline more than volume of money, result would be rising prices. Advocates stabilization at present level.

LONDON, ENGLAND.—Until recently it was taken all but generally for granted that Britain would never witness a return of a deflationary monetary policy. It was thought that Lord Keynes had discredited for good the policy under which over-trading or excessive consumer's demand is sought to be corrected with the aid of reducing below current requirements the quantity of currency and credit available to producers. But Lord Keynes is dead and deflationism is raising once more its ugly head.

Dr. Paul Einzig

Beyond doubt, Britain is suffering through inflated purchasing power, as a result of which too much money is chasing too few goods. This state of affairs could be corrected either by reducing the volume of money or by increasing the volume of goods, or by a combination of the two methods. The government appears to have chosen mainly the second alternative. While it is endeavoring, to some extent, to curtail the volume of money, it builds its hopes mainly on an increase of the output. The British deflationists, on the other hand, consider it entirely hopeless to attempt to raise the output sufficiently to provide a counterpart to the excessive purchasing power that is in circulation. They feel that, unless equilibrium is allowed to return through a rise in prices, the only way in which it could be restored would be through a drastic cut in the volume of purchasing power.

The direct way of achieving this would be an all-round cut in wages and social service benefits. This is, however, politically impossible. The new British "ruling classes"—the organized workmen headed by the all-powerful Trades Unions Council — simply would not be prepared to put up with it. Therefore, the deflationists suggest that the desired end must be achieved with the aid of good old-fashioned credit restrictions which would produce the desired result by forcing stocks of goods into the market and by creating unemployment. This is being done to some extent in several continental countries. Italy, in particular, has been making a remarkable deflationary effort, and British deflationists triumphantly point out that, as a result, the premium on the dollar and other currencies in the Italian black market has declined considerably. What they do not say is that quite recently the lira had to be devalued once more and that the deflationary drive is accompanied by a series of major strikes leading to the granting of higher wages. Evidently the deflationary policy in Italy has not even succeeded in arresting the inflationary spiral, let alone reversing it.

The armory of deflationists received recently strong reinforcements as a result of the drastic devaluation of the rouble in Soviet Russia. It is claimed that the reduction of the value of a currency to one-tenth is a deflationary measure, since it eliminates excessive purchasing power. No doubt that is so. But it would be a mistake to imagine that the Soviet Government has now embarked on a systematic policy of deflation. Whenever a country devalued its currency to a substantial degree there was always a temporary scarcity of money. Quite recently the devaluation of the leu in Rumania resulted in such a scarcity that, even though there was an acute shortage of food, the price of much-coveted foodstuffs fell sharply, because money was even scarcer than food. It is because money in Russia has become scarce as a result of the devaluation that the Soviet Government can now afford to remove rationing.

This does not mean, however, that money will remain permanently in short supply, either in Russia or in Rumania (which latter country carried out its monetary reform under Russian advice). As before the devaluation, all the financial requirements of producers will be satisfied, in order to maintain the output. There will be no unemployment for lack of financial resources. Yet that is the main purpose of a deflationary monetary policy.

Should the British Government allow itself to be persuaded by the deflationists to embark on a policy of credit restrictions, the immediate result would be a fall of the output. In normal conditions the immediate result would be heavy selling of hoarded stocks. In Britain today, however, stocks in most goods are very low, however. Deflation would not increase the volume of goods on offer, but would reduce it. Nor would it materially reduce the volume of purchasing power. For the industrial workmen would resist to the utmost any attempt at an all-round cut of their wages and the unemployed would benefit by the greatly increased social benefits they are entitled to receive under the new National Insurance Act. It seems probable that the volume of goods would decline to a larger degree than the volume of money chasing them, and that, consequently, the result would be an increasing tendency of prices.

The correct end to which the government should aim is not deflation but stabilization. If only the Trades Unions could be persuaded to agree to the fixing of a ceiling to wages, the gradual increase of the output would sooner or later restore equilibrium between supply and demand, possibly without any sharp rise in prices. It seems utterly unlikely that the government would embark on a deflationary adventure, thereby antagonizing its own supporters without even being able to attain the end of that policy which, with conditions existing at present in Britain, is doomed to failure.

Central National Co. of Texas is Formed

DALLAS, TEX. — Announcement is made of the formation of the Central National Company of Texas with offices in the Kirby Building, to continue the investment business formerly conducted by Crummer & Company, Inc. Partners are L. F. Rodgers, Fred R. Deaton, S. W. Jackson, W. E. McFarland, C. M. Smith, and George T. Hemmingson. The firm maintains branch offices in Omaha, San Antonio, Plainview, and St. Paul.

As We See It

(Continued from first page)

with inflationary dangers rather than calling for adequate production."

For our part, we are unable to understand why anything in all this should have been astonishing to any one. We can only suppose that the President's advisers had somehow been hypnotized by the "full employment" cry of a year or two ago. We hesitate to go to the extreme of supposing that they have ever made the grave error so many others have made of regarding employment, full or otherwise, or work as an end in itself. At any rate, we can think of few things more astonishing than that any informed, intelligent group of men should find these developments of the past year astonishing.

What Next?

Having made this remarkable confession, this Council, which we believe no one will now censure us for regarding as somewhat naive, proceeds to consider the present situation. Full employment did not in the event prove to be the solution of all our ills; the question in the words of the Council now is: "Will our present economic problems—inflation, high cost of living, threatened recession, and all the rest—be solved merely by 'production, more production, and still more production?' Or may full production, in catching up with market demand, force disastrous price breaks, result in production cutbacks, and thus prove to be its own undoing?" In short, full employment has not done the trick; are we now again deceiving ourselves, this time in the supposition that full production will do it? Doubt of one's own infallibility may, of course, be the beginning of wisdom. In this respect and in this degree, perhaps, the American public may have some ground for encouragement. Most government officials a year ago seemed to have little doubt of themselves.

But the President's Council presently gets around to supplying an answer of a sort to its own question. In light of the special stimulants now bearing upon the economic system, it finally comes up with the sage observation that acceleration of production in existing circumstances "will simply advance the time when we shall have to face the problem of what price, income, and property value adjustments have to be made to strike an internally consistent or stable equilibrium." After considerable meanderings, this official "brain trust" reaches the conclusion that the economy is now out of balance, and that Government somehow must restore equilibrium, and must get promptly about its task if serious consequences are to be avoided.

A truly magnificent grasp of the obvious is shown in observing that some prices are out of line with others; that profits in some segments of the economy have risen much faster than in others; and that wages have not risen uniformly throughout industry, trade and finance. Then as if to make certain that no one could possibly miss the fact that the Council has run to emptyings, this sentence is inserted:

"In any composite of salutary policies, none is so significant as the achievement and maintenance of real price competition, which means the lowest price consistent with a fair return in a stable economy rather than the highest price that the traffic will bear in an unstable economy."

A Hopeless Task

But no good purpose is to be served by further belaboring a sincere group of intelligent men who have been assigned a hopeless task. Of course, "full employment" is and always was a snare and a delusion if regarded as the ultimate or even one of the ultimate achievements of an economy. Goods and services most desired by consumers are what industry and trade are supposed to provide—and the less effort (work or jobs) necessary for that purpose the better for all concerned. Of course, the economy of the world is out of joint. Ours is no exception, although the dislocation is less severe here than in many other countries. Naturally, mere blind enlargement of production in and of itself will not guarantee salvation. No one in his right senses would deny that such stability as may be achieved in the economic system, short of stagnation, is greatly to be desired, and certainly we should be the last to decry competition as a force working toward desirable ends.

But in these days of manpower shortages, why in Heaven's name set up and maintain an expensive organization in Washington to tell us these things which must already be clear to the wayfaring man, fool though he be. And, even more to the point, why assign to such an organization the task of finding a way by which the President or Congress can by fiat, sleight of hand, or other means, cure the ills we suffer—ills which in large part flow from the blunders of these very governmental bodies or individuals. Of course, this Council, being composed of human beings, is able to do nothing of the sort—since there is no such "composite of salutary policies" save the obvious one of getting out of the way, and letting natural forces correct that which is in need of correction which they would do readily enough if given an opportunity.

Getting Out of the Way

Of course, "getting out of the way" at present would mean a good deal of rather positive action on the part of both the President and Congress. It would mean drastic modification, or better yet outright repeal of much legislation which has found its way to the statute books since the New Deal took over in 1933—and some which had even prior to that year found its way into the laws of the land. It would mean a sharp right-about-face on the part of the Chief Executive who, of late, has been showing indications of an itch to reinstate a good deal of the New Deal nonsense which he had at an earlier date rather definitely repudiated. But this sort of "getting out of the way" is one of the very first essentials of any "composite of salutary policies." And without it, instability will inevitably increase and become progressively more difficult and costly to overcome.

The Council of Economic Advisers is evidently "out of gas," but what is really needed is an abandonment of the system which could possibly use such an organization.

The Future of Easy Money

(Continued from first page)

events in a year or two, are not much in demand.

But there are also economic forecasts of another order which carry far more weight. These are the ones which are based on the simplest of all economic propositions. They rely on the nature of man and take it for granted that whatever anyone may have to offer on the market of goods and services he will be eager to receive the maximum return. They expect laws and regulations to be disregarded whenever they fail to conform with this elementary rule.

It is safe to predict that price ceilings will lead to black markets, that either unemployment or inflation will result when wages which should be adjusted downward are sticky; that rent controls will foster all kinds of bribes and circumvention and will hamper new construction. The two World Wars and their aftermath have produced a superabundance of cases by which these statements may be verified. In a free society no government can successfully enforce measures which contradict the needs and ethics of the free market.

The present article is concerned with the easy money policy in this and other countries. The rate of interest is a price like other prices. If it is artificially manipulated there will be certain undesired reactions. Easy money cannot last forever.

History

The governments of countries which are on the gold standard can do little in the way of influencing the rate of interest; for if they set it lower than the prevailing circumstances warrant, capital will be transferred to other countries whereupon the rates will stiffen at home.

It is different in countries which are on a paper standard, be it that they have abandoned the gold standard or that they have never adhered to it. Countries which manipulate their currencies under the exclusive point of view of domestic conditions and pressures can introduce exchange controls to prevent the flight of capital. They can then manipulate the rate of interest for quite a while. Most countries have acted that way since the 1930's.

Easy money became popular during the Great Depression. It was expected that low interest rates would facilitate recovery. Easy money was introduced without difficulty in Britain, the United States and elsewhere. Until 1939 the policy of low interest rates might have been easily abandoned and reversed if that had been desired.

That is no longer so since World War II. A return to higher interest rates would have to overcome great obstacles. For the War has led to two significant developments which have had the result that at present more vested interests support the easy money policy than was the case when it was first initiated.

The Public Debt

There is firstly the public debt. British indebtedness rose from £ sterling 848,000,000 in 1815 to 7,830,000,000 in 1918 to 24,500,000,000 in 1946. America's Federal debt increased from $1.2 billion in 1916 to $262.6 billion in 1946. The Federal debt was about 20% of national income in 1930, but 157% of it when the second World War ended. In England a rise of 1% in the average rate on the whole debt would cost the Exchequer the equivalent of the Beveridge Plan plus the ambitious Education Act of the Churchill War Cabinet. In the United States an increase of 1% would amount to a greater sum than what was paid in individual income taxes in any year between 1925 and 1940. Small wonder that the indebted governments and the taxpayers sympathize with a policy which keeps their interest payments low.

The Banks

As a result of the war the banks are loaded with government securities. At the end of 1945 their loans and investments were about 200% higher than in 1929, but their capital had increased only 13%. The securities owned by the banks exceed their capital many times. In the case of a general decline in the securities market the banks might face serious difficulties. A decline is bound to come if money rates should stiffen. It could easily wipe out the capital of the banks. The consequences might be terrific.

Natural and Manipulated Interest Rates

The problem whether or not easy money is desirable has been discussed over and over again. Less attention has been paid to the question whether cheap money can be expected to prevail in the long run. If it cannot, the fact that cheap interest rates may be desirable loses much of its significance.

The effects of easy money vary with its origin. It makes a great difference whether it came about as the result of the demand for and the supply of capital on the free market or was artificially induced by a certain monetary policy.

(1) In the United States short-term commercial papers yielded as a rule a higher rate of interest than long-term railroad bonds from about the middle of the 19th century until the depression of the 1930's. In England the average yield on consols and the average rate of discounts (three months' bills) was ordinarily much the same. The average discount rate was 3.8% and the yield of consols was 4.5% between 1922 and 1931. But between 1932 and 1943 the average discount was about 0.9%, the yield of consols 3.2%. The same discrepancy arose in the United States. The short-term rates were set by the governments. But long-term securities were regarded with a measure of suspicion since they were bound to decline in the case that the artificial low money rates should eventually collapse.

(2) Equally unusual has been the development which has taken place in the relationship between interest rates and commodity prices. There is a long historical record to show that the two normally go up and down together. For when prices rise it is profitable to borrow money. When prices fall, debts are a burden.

But during and since the second World War, interest rates have been low because the governments had manipulated them that way. Prices however went up everywhere, since the same governments created vast amounts of new money.

(3) Still another discrepancy between the impact of natural and manipulated interest rates has become apparent in the attitude of the various governments toward capital investments in foreign countries. This does not apply to this country whose citizens are free to invest their money outside of the United States but have little inducement to do so in view of conditions abroad. Britain, however, is a pertinent case. Up to 1914 the "City" which meant financial London, was prominent as *the* international lender. It was sometimes contended that the cheap money rates of the City were the cement of the British Empire, which borrowed money in England. This was an exaggeration. Still the contrast with England's cheap money policy since the depression is instructive. When cheap money was no longer the natural result of abundance the British government decided that England's capital should work at home. First, an unofficial and later an official embargo was imposed on foreign lending. The same attitude can at present be found in practically every other country.

Easy Money and Inflation

It is not difficult to understand why the results of artificially induced easy money rates are different from those of "natural" cheap money which emerges as a result of saving on the one hand and the lack of demand for capital on the other. A cheap money policy is a policy of inducing low interest rates by increasing the volume of money. Therefore the low interest rate itself is only a part of the story. Another part of it is the impact of the growing money volume on the price level and still another is to be found in the psychological reactions of the population in an atmosphere of economic instability and uncertainty.

When cheap money is created by inflationary manipulation it goes through a first stage to

which alone its supporters refer when they glorify its merits. At this stage everyone is making money while prices go up only slowly.

But a second stage is bound to follow. When inflation has gone on for a while the people at large begin to understand it. They grasp the fact that the rise in prices is in fact a decline in the value of their money; and that the monetary policy of their government is the source of the rising cost of living. Once they have reached this point they will distrust their government. They will be willing to pay high rates of interest to lenders and will use the borrowed money to buy real estate or stocks or commodities or, provided it can be done, foreign currencies. Even if their government continues to provide cheap money, not everyone has access to it. A second market of interest rates will emerge in spite of the official policy. On this market the interest rates will reflect the apprehension with which the people envisage the future value of their money. Its interest rates will be high. Artificially created low interest rates produce inflation. Inflation on its part induces higher interest rates.

German Inflation

It need hardly be pointed out that this country does not face an inflation that can even remotely be compared with the inflation which the Germans experienced after the first World War. But extreme cases are useful for the sake of illustrating basic facts. The great German inflation began in 1914. From 1922 on it ran into crazy figures until stabilization of the mark was accomplished towards the end of 1923. When every German had finally understood what was happening to his money, fantastic interest rates were charged and paid. The last borrowers who were caught by the stabilization and had to pay back in money that was as good as the money they had received a short while ago were, in many cases, unwilling to pay the high interest rates to which they had pledged themselves. A number of cases came before the German Supreme Court. But the latter showed good understanding for the risks which the lenders had taken as long as the future of the German mark looked gloomy. It declared the following rates to have been "reasonable": 6% daily from Nov. 2 until Dec. 10, 1923; and 1% daily from Dec. 11, 1923 until Dec. 31, 1923.

Forecast

The German inflation of the 1920's was the result of various factors among which the easy money policy was not the most important. But it serves to illustrate the fact that when people begin to distrust their national currency there is no limit to the height of interest rates.

In view of not only the German record but also that of other countries it is surprising to find that the most prominent advocates of easy money still feel that their policy can be indefinitely continued. The Federal Reserve Board "does not favor a higher level of interest rates than the government is now paying."* President Truman said in his Budget Message of Jan. 10, 1947: "Interest rates will be kept at present low levels." The Governor of the Bank of Canada has declared: "Indications that the Bank (of Canada) intends to continue this easy money policy should be helpful in making plans for the future." Lord Beveridge is convinced "that the Government possesses full control over the rate of interest."† Each of those statements is founded on the same conviction that if the government desires a certain rate of interest to prevail it will prevail. The ultimate in that respect can be found in a passage by H. G. Pierson, who declares: "Ultimately the decision as to what constitutes an adequate rate of return on loaned money should belong with the people. . . . Hence, steps should be taken to make the rate of interest a political issue as soon as an intelligent debate on the subject is possible, and to settle this issue in a democratic manner."‡ The suggestion is apparently that in not too distant a future the rate of interest shall be determined by the same methods that have been successfully used in the nomination of "Miss Rheingold" and "Miss America."

Nature Will Assert Itself

In the past, the rate of interest behaved like other prices. It was sometimes high and sometimes low. If it could be kept low once and for all in the future, that would be an amazing accomplishment. It would prove that we are living in a new world and that the economic laws which were valid before the depression of the 1930's are no longer valid. It is of course not entirely impossible that this should be the case. But it is not very likely. There has been a time before when people were convinced that they could learn nothing from the past, at least as far as this country and the menace of a future depression were concerned. However, the generation of the 1920's which was so optimistic could at least present a reasonable argument. Technical progress had been rapid, new methods of marketing had proved successful, democracy was making progress in many countries and the danger of another World War did not loom as large as it did later. In spite of all that the optimists were refuted by subsequent events. The basic economic laws had not changed. They were still the same.

The people who contend that a new era has opened up in the field of capital and interest and that from now on easy money can be perpetuated do not even dispose of convincing arguments. We have just experienced a terrific destruction of capital and human beings all over the world; and there is an abysmal lack of confidence as regards future economic and political developments. Low rates of interest can only be continued if the people are sure to trust their national monetary system at all times, come what may. It is not too likely that they will. For, as the Latin poet said almost two thousand years ago: "You can drive out nature with the pitchfork, yet it will ever return."

The easy money policy has already broken down in France. It is having a rough time in England. The next important decision which faces this country in the matter will be the frank acknowledgment that in the long run natural and not manipulated interest rates are bound to prevail. Future rates will sometimes be high. The debtors will complain. But it can't be helped.

Many competent economists and businessmen have offered suggestions how to liquidate the easy money policy and remove the threat that hangs over the banks. It is not the purpose of the present article to review the various plans. But whatever steps may eventually be taken for the sake of normalizing the capital market, they should be taken soon since nothing can be gained by procrastinating the issue.

*Thirty-second Annual Report of the Board of Governors, Covering Operations for the Year 1945, p. 4.

†"Full Employment in a Free Society," London, 1944, p. 338.

‡"Full Employment and Free Enterprise," Washington, D. C., 1947, p. 8.

Employment and Outlook for 1948

(Continued from page 9)

even show a resumption of military purchases.

(4) Inventories, quoted both at their price values and their volumes, will increase during 1948. Both raw material piles and manufactured goods will be in greater supply during 1948.

Commodity Prices

(5) Notwithstanding the above paragraph, some allocations or priorities may be reinstated in 1948. The public is sick of high prices and will make demands for some price controls in the case of certain products in short supply.

(6) The retail price of some goods, other than food products, will be higher during 1948 as the final turn has not yet been reached for all types of goods.

(7) We expect to see the peak in wholesale commodity prices sometime during 1948. We, therefore, advise going easy on inventories, especially on borrowed money.

(8) Retail price changes will lag after wholesale price changes. This explains why we expect retail prices on good quality merchandise to hold up for awhile after wholesale prices begin to decline. *But 1948 will be a year of war preparations.*

Farm Outlook

(9) The total farm income for 1948 should approximately equal that of 1947; but we forecast lower prices for wheat, corn, and certain other products. Farmers should certainly diversify more in 1948, get out of debt, put money into improvements, and prepare for real trouble someday.

(10) The supply of certain vegetables, fruits, and fish products should increase during 1948 and the price of these should fall off barring some weather, insect, or blight catastrophes.

(11) Meat will be in shorter supply in 1948 than in 1947. Should the current propaganda to "eat less and have a better figure" gain popularity, upward pressure on meat prices would be greatly reduced.

(12) Farmers will try to get both 1948 Presidential candidates to promise further subsidies.

The above four Farm Forecasts assume normal weather which we do not attempt to predict.

Lower Taxes

(13) The Federal debt will be decreased during 1948.

(14) No personal taxes will be increased during 1948 and there will be some reductions—perhaps 5% to 10% in the upper brackets and the entire elimination of those in the lowest bracket.

(15) We forecast that the new tax bill will enable a man to share his income tax equally with his wife without sharing his income or property.

(16) The 25% tax limit on long-term gains will remain unchanged.

Retail Sales

(17) Goods on counters will be of better grade in 1948, even if retail prices hold up.

(18) There will be many "markdown sales" of goods of inferior quality and curbs on installment buying may return.

(19) The dollar value of all retail sales in 1948 should at least equal 1947.

(20) The unit value of retail sales will be less in 1948 than in 1947; there will be fewer customer purchases in most stores, although each customer may visit more stores to "shop around."

Foreign Trade

(21) Our foreign trade will be less in 1948 than in 1947. We shall help Europe; but it will be on a more economical and efficient scale.

(22) More foreign loans will be made during 1948; but many of these will be direct to business concerns rather than to political governments.

(23) There will be considerable competition from other countries in legitimate foreign trade where the credit is good. Other countries will not compete with us in our "charities"; but they certainly will compete for all profitable business.

(24) Throughout 1948 war talk and uprisings will continue; but no World War III will start in 1948. *War preparations will accelerate.*

Labor Outlook

(25) 1948 will see an average hourly wage rise of 5% to 7%. Lower income taxes should increase buying power, but this will be about offset by further rises in the cost of living.

(26) There need be no more unemployment in 1948 than in 1947; but "Unemployment Insurance" will be taken advantage of by too many unprincipled people.

(27) Wageworkers will gradually see that the Taft-Hartley Bill puts a checkrein only on their labor leaders, but not on union membership. Hence, the bitter hatred against this bill will gradually subside. The bill is merely an "SEC" for labor leaders who need it today as much as investment bankers needed the SEC which was started ten years ago.

(28) Any labor legislation during 1948 will be to amend the Taft-Hartley Bill and to raise minimum wages.

Inflation

(29) The Inflation Era which we have forecast for several years will remain at this stage until Nov. 2, 1948. There will be no reckless printing of currency or government borrowing in 1948.

(30) 1948 will see a public reaction against "feather-bedding," "workless" jobs, and union rules which result in slow-ups. More labor-saving machinery will be installed. The public is gradually realizing that inflation can be beaten only by increased production.

(31) Sometime during 1948 production in many lines will have caught up with consumption which will prevent further price increases in such lines.

(32) There will be many inflation and price investigations during 1948. Both the Democrats and Republicans will try to lay the blame for high prices on the other party.

Stock Market

(33) We believe that 1948 will be a year of switching, for various reasons. One of these will be an attempt to get out of stocks of companies which have most of their assets in big "vulnerable-in-case-of-war" cities into companies whose assets are well distributed and safe from attack.

(34) The Administration will try to keep the Dow-Jones Industrial Averages between an upper ceiling of around 185 and a floor of around 165. Commodity speculators will be curbed.

(35) The wisest will not try to pick any special "winners" in 1948; but will diversify broadly and those who have too many stocks will gradually build up good reserves, in cash or governments, for the big break which will come someday.

(36) Careful buyers of stocks will insist on making full payment and avoid borrowing during 1948.

Bonds

(37) We are definitely bearish on low-coupon rate, long-term bonds. Many of these will sell at even lower prices in 1948 than in 1947. Money rates will gradually increase.

(38) If Congress gives a good reduction in Federal taxes to investors in high brackets, 1948 will see a further falling off in the prices of most municipals and other tax-exempt bonds. As indicated above, however, we do not expect such a desired tax reduction.

(39) In view of the large decline in many preferred stocks during 1947, this rate of decline should begin to level off during 1948.

(40) Investors will give much more attention to diversification in 1948 and not become too heavily interested in railroad securities, telephone issues and other public utilities, many of which are now selling too high.

Real Estate

(41) City real estate will continue to hold firm through 1948, due to less available space caused by pulling down structures to save taxes, to provide parking spaces, etc. There also is a disinclination to build city property in view of the present high inflationary building costs.

(42) Suburban real estate will continue in greater demand with still higher prices during 1948.

(43) Big commercial farm acreage may sell for less during 1948; but subsistence farms located close to established communities will hold up in price.

(44) General building should increase during 1948. Young people are gradually getting accustomed to high building costs and tired of living with their mothers-in-law.

(45) Both office and residential rents will be higher in 1948. Property owners are entitled to receive higher rentals. Only as such are granted will there be as much building as there should be.

(46) Mortgage rates during 1948 will continue about the same as in 1947. These rates are very favorable for those who have the courage to build. However, in 1948, it will be harder to obtain mortgage loans.

Politics

(47) Both President Truman and the Republican leaders will be playing politics up to Nov. 2, 1948. It is now too early to forecast the outcome of the Presidential election. The Republicans, however, have so bungled the price controversy that Mr. Truman has a fair chance of re-election.

(48) Congressmen returning from Europe will determine our foreign policy and take it out of the hands of the State Department, the Brass Hats, and even the President himself.

(49) Unless illness or accident interferes, Mr. Truman will be the Democratic candidate, with the possibility of Mr. Marshall being on the ticket with him.

(50) We forecast a greater interest in sane religion, temperance, and civic righteousness during 1948, with continued reaction against denominationalism, intolerance and dogma.

Cuban Bonds Drawn for Redemption

J. P. Morgan & Co. Inc., as Fiscal Agent, is notifying holders of Republic of Cuba External Debt 5% Gold Bonds of 1914, due Feb. 1, 1949, that $343,400 principal amount of the bonds have been drawn by lot for redemption on Feb. 1, 1948, by operation of the sinking fund, at 102½% of the principal amount and accrued interest. Interest on the drawn bonds will cease on the redemption date. The drawn bonds will be payable on and after Feb. 1, 1948 at the office of J. P. Morgan & Co. Inc., New York City, or at the office of Morgan Grenfell & Co. Limited in London.

With Carter H. Corbrey

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Leon E. Huey has joined the staff of Carter H. Corbrey & Co., 650 South Spring Street.

Inflation and the Stock Market

(Continued from first page)

mate of insight into the economic future.

If generalize we must, the reverse generalization — that the stock market usually is wrong—would be nearer to the truth. Its pathetic lack of foresight is documented at almost every major turn. In the late '20s. the New York Stock Exchange turned into the world's greatest gambling house, as is generally known. By 1929, leading common stocks were capitalized on a 2 to 3% yield basis, while the return from highest grade corporate bonds was around 5%. By September of that year, the Dow-Jones average of industrials went through 381, this despite raw material prices slipping for three years, rising interest rates, the accumulation of huge inventories, the break of the Florida real estate and the housing boom, and in the face of the most serious symptoms of maladjustment. The "wisdom" displayed on that level of speculation certainly did not enhance the public respect for the rationality of stock operators. How much wiser did they turn during the depression? By the summer of '32, the industrial average was down to the low of about 41, indicating an almost complete lack of belief in the possibility of a recovery. One may go through the history of ups and downs in stock quotations and find the same picture time and again: the irrationality of the market in wildly exaggerating the trend and in ignoring the follow-up. A more recent illustration: from the end of 1939 to the end of 1942, while the country went into the world's greatest war boom, the industrial share average declined by more than 25%. It took the market three years to discover that a dollar-bonanza has been pouring out all that time. In May of '46, the same average reached the post-1929 high of 216 while a major part of the nation's plant was paralyzed by unprecedented strikes. As soon as the strikes were over and production picked up, with very promising third and fourth quarter profits for 1946, the market broke by some 20% and has not truly recovered since whereas net corporate profits are passing all records and continue to rise. What happened between May and September of that year to justify either the high at the one date or the low four months later? Evidently, the market could not have been right both ways.

Briefly, the barometer-like rationality of the stock market is a myth. Indeed, how could it be otherwise? It deals in future prospects, often subject to indeterminate or unknown influences. Inflation today may spell deflation tomorrow. To determine the prospects of corporate per share earnings takes better than average "insight" even under fairly stable conditions. But world wars and consequent developments have created uncertainties about the future which are reflected in unusually violent fluctuations of equity values as well as in apparently paradoxial patterns of market behavior. Liquidity and capital gain considerations vastly complicate matters. What of the rate at which future earnings will be capitalized at a future date? The prospective interest rate, not just the current one, is vital to projected capital valuations, and therefore to present quotations, too. Nor is that all the "speculator" has to forecast. He has to form an opinion today, subconsciously at any rate, of what speculators at some future turn will think of the prospects of a still more remote future.

The rationality of the Economic Man presupposes that he knows "what he is talking about." When the knowledge of basic facts to build a judgment is scanty, at best, he is bound to be subject to emotional mass psychology and to become unpredictable. He may then follow the nonsensical Dow theory or—Walter Winchell, for that matter.

In other words, the stock market is neither an indicator of the current business situation—except possibly, but by no means generally, of differences in earning status between individual companies and industries—nor of its *actual* prospects. But it does indicate the state of mind prevailing in the financial community, including the state of literacy among the fraternity of financial advisers and business prognosticators.

Stock Market Depression in the Midst of Inflation

However, the present discrepancy between the "facts of life" on the one hand, and the forecasts expressed in the capitalization of industrial earnings on the other, follows a somewhat unusual pattern. Usually, the wrong forecasts of the stock market are the result of projecting the prevailing situation into the indefinite future. The exactly opposite attitude prevails now. For 16 months or so, the market action is in obvious contrast to the current facts. Seemingly, the coincidence of unusually high earnings with record low interest rates is ignored or minimized. The implication is that low earnings and/or high interest rates are expected in a reasonably near future. The result is a level of quotations at which blue chip stocks are available on a 6% or better dividend yield basis—at better returns than even in the crisis year 1920, when the "pure" rate of interest was at least double the present. Compared with their pre-war levels, industrial shares have doubled; but in relation to earnings, they are selling well below where they were, while other capital values such as real estate and farm prices have followed the inflationary trend. Presently, disregarding some public utility products, common stocks are just about the "cheapest commodity" dollars can buy in this country.

There can be little doubt that the stock market stagnation is due largely, if not entirely, to depression fears. First, it was the expectation of an automatic "bust"; presently, the fear of governmental action to stop the price spiral and of its immeasurable consequences, may be the underlying factor. (That is probably the main cause, too, behind the current weakness of corporate and bank-eligible Federal bonds: the apprehension that the Reserve authorities may let the non-eligible 2½s drop under par, notwithstanding their emphatic assurances to the contrary.) Further reasons or ratiocinations, may be adduced: the fear that foreign countries may be compelled to liquidate large portfolios of American securities which they still own; that a crisis may hit the export industry if and when the outer world's dollar reserves, and our willingness to provide more run out; the limitations on stock speculation due to the almost prohibitive margin requirements on security loans; the fact that taxation combined with the inflationary redistribution of the national income has greatly weakened the groups which are traditionally stock buyers, while the *nouveaux riches*, such as the farmers, use other avenues to invest their surplus income and to hedge against inflation. These and similar factors may be relevant to some degree, but certainly not to a sufficient degree to provide more than subsidiary explanations.

Stock Market and Equity Capital

Be that as it may, the break in September, 1946, did not have and could not have the disruptive effect which characterized similar turns in bygone days. For one thing, the credit volume involved in margin speculation has been comparatively small and has dwindled since to almost negligible proportions. Consequently, no catastrophic liquidation occurred, or is threatening.

Even so, the continued weakness of the stock market should be of significance to the inflationary process itself. As costs and prices keep rising, the demand for capital for all types of purposes increases, too. The lack of absorbtive capacity for equity securities, including preferred stocks, diverts the capital demand into other channels which might become strained. Bond issues and bank loans take the place of equity issues, at the risk of over-burdening both fields of credit supply and making it increasingly difficult to provide the capital necessary for expansion and replacement. Should the situation last for some time longer, serious financial complications might arise Increasing the bonded indebtedness of corporations out of proportion to their equity capital may impair their financial status. Even more "unsound" should be a continued expansion of bank loans without a proportionate rise in the ownership equity of the debtors. The banks may run up against such "golden rules" of their own as the 1:1 ratio between net worth and borrowed capital of the debtor, or a 4:1 ratio between net worth and short-term debt, etc. As to term-loans, the banks are becoming increasingly reluctant to enlarge this kind of commitment. The upshot of it all is that sooner or later much of the growing capital demand should be satisfied by preferred and common stock issues, or else remain unsatisfied. Lasting weakness of the stock market would, according to this reasoning, automatically stop the credit flow, or reduce it greatly, thereby compressing the volume of construction and related activities and breaking the backbone of the boom itself.

A stock market languishing in the midst of an inflationary boom of great magnitude is a remarkable anomaly, indeed. But it would be even more remarkable if the persistence of this condition would stop the boom. It is far more likely (on logical grounds, anyway) that the continued inflation should bring about a revival of the market's spirits. We still are at the stage at which the "men on the street" (who populate the Stock Exchange as well) firmly believe in the inherent virtues of the dollar. Did it not regain its full purchasing power in barely more than a decade after having lost more than one-half of it in the decade previous to 1920? At some point—if the inflationary Full Employment is not abandoned soon, as it is not likely to be—this belief will be undermined and a "flight from the dollar" will set in. Common stocks, being an essential way of hedging would be affected accordingly. Sooner or later they must become so "cheap" as to attract widespread interest

In the meantime, the stock market's lack of absorbtive capacity per se could not stop the boom. It may slow it down somewhat—perhaps. A few considerations should suffice to elucidate the point: that an inflation can not be restrained effectively, still less reversed, by the fact that fresh equity capital is available only on severe terms, or not at all. To begin with, the conservative "golden rules" (if any) which supposedly guide the banks' lending policies in terms of ratios are far from being immutable. They are neither generally accepted nor in any way enforced by supervisory agencies. Far better established principles have been abandoned before. Remember what happened to the "classical" capital ratio of the banks themselves? As a matter of fact, that allegedly time-honored ratio between the banks' earning assets and their proprietary capital stood around 3:1 in the 1870's. After World War I, the average American bank's capital ratio sank to one-tenth or so of its earnings assets. The 10:1 ratio then became accepted as the golden, if not the holy, rule. Since the depression it deteriorated gradually; the average ratio is some 25:1 at present. The supervisory agencies grudgingly accepted the facts of life (or should they have precipitated a new banking crisis?), and the classical 10:1 figure scarcely ever is discussed anymore in bank directors' meetings.

Changing Financial Rules of Thumb

New standards of lending policy arise as the inflation progresses What was "sound" principle under normal circumstances become obsolete in an inflation that changes the financial outlook. Ratios and similar guide posts simply disappear as new situations create new problems and bring about new adjustments. With rising prices, not only the demand for fresh capital grows, but also the credit-worthiness of the would-be debtors. Even if the same credit margins are observed more dollars can be loaned on the same collateral. The pressure on the banks in particular, to provide the business community with the necessary funds is bound to overcome any resistance. But why should they resist if more and more assets become credit-worthy due to rising prices and the value of the available collateral increases? The combination of urgency on the side of the credit demand with the urgency of the profit motive on the side of the institutions keeps the volume of bank loans, other than security loans, expanding (presumably by $9 billion in 1947). While the security markets languish, bank credit is channeled into "commercial, industrial, and agricultural" loans, or "other" loans, or what have you. Should the stock market recover, more credit will flow under the heading of security loans. In one form or another, the total of bank credit keeps growing —until and unless a deliberate deflationary policy of the government calls a halt altogether.

Corporate Structures Under Inflationary Fire

As a matter of fact, a continued inflation is bound to revolutionize the corporate financial structures As it is, our perverted tax legislation puts a premium on debt-capital as against equity capital, interest charges being deductible before taxes while dividends are not, not even preferred dividends (with limited exceptions). Now then, comes the effect of the inflation. The longer it lasts, the greater the incentive it offers to go in debt—to borrow hard dollars and repay in soft ones. Instead of it being financially sound to have a comparatively large net worth it becomes sound policy to go "through the looking glass" and to increase the leverage by more borrowing. Obviously, all financial standards valid under stable monetary conditions or at times of falling commodity prices are reversed when commodity prices keep rising. The fact that the stock market is practically quarantined against fresh financing becomes almost irrelevant: *under inflation it is more desirable* from the debtor's own point of view (sounder, if you please) *to borrow money* that easily can be repaid as profits rise and as money depreciates in purchasing power *than to enlarge the equity base* And borrow, the corporations can, since the inflation provides investors, especially institutions, with funds which must find an outlet.

Of course, all of this presupposes that the rate at which money can be borrowed remains low in comparison with the dividend yield of stocks. In other words, Cheap Money must last, which is another way of saying that the Federal Reserve must support the government bond market. Without that support, bond yields would skyrocket, and the inflation would come to a deadly end. But that can be brought about only by political decision the responsibility for which no political party is likely to take in the as yet visible future.

However, quite an amount of equity financing, and a growing volume of it with progressing inflation, will become unavoidable. Therefore, one of two things is bound to develop: either the mountains come to Mohammed, or vice versa. If the stock market does not recover from its comparative impotence and does not provide the vehicle for equity financing, the corporations will not only have to borrow more but also to rely increasingly for fresh capital on their own earnings. Already, a somewhat lower than traditional percentage of net income is being paid out in dividends. As profits rise, the percentages may be lowered further, and in many cases even dividend rates may be cut. That is the choice the stock investor will have to make sooner or later: either to return the dividends he received through buying more stock, or to receive less in dividends.

Shields & Co. Finances Sheller Acquisition

Shields & Co., it was announced Dec. 30, have placed with the New York Life Insurance Co. and the Massachusetts Mutual Life Insurance Co. $4,000,000 of Sheller Manufacturing Co. 3¾% sinking fund notes due 1962 and also placed privately 65,700 shares of Sheller's $1 par value common stock. Together with $1,700,000 of newly issued 5% preferred stock, proceeds from the sale of the notes were used by Sheller to finance the acquisition of all of the outstanding capital stock of Dryden Rubber Co. Dryden produces an extensive line of molded and extruded mechanical rubber components, principally for the automotive industry.

Sheller Manufacturing Co. is a leading manufacturer of steering wheels for the automotive industry, accounting for approximately 65% of the nation's steering wheel output. The company supplies all of the steering wheel requirements of such manufacturers as Ford, Studebaker, Hudson, Packard, Kaiser-Frazer, Willys-Overland, Nash, White Motors and Mack Truck, a substantial part of the requirements of Chrysler and some of the needs of General Motors. Other products of Sheller include cork gaskets, bottle crown caps, plated die castings, radiator shutters and screw machine products.

M. M. Burgess, President of Sheller Mfg., commenting on the acquisition said, "It gives Sheller further important diversification of output and opens to the combined companies opportunities to benefit from long standing customer relationships." On the basis of 1947 operations, he stated that the acquisition would increase Sheller's sales from approximately $14,000,000 to more than $25,000,000 and earnings from $2.60 per share of stock previously outstanding to an estimated $4.60 per share on the new capitalization, after interest requirements.

James J. Murray Dies

James J. Murray, a bond trader connected with Asiel & Co., New York City, died of pneumonia at the age of 51.

Outlook For 1948

(Continued from page 2)

determining the how, why and where of the present boom. In this sense new high records or estimates of business ahead may actually be misleading. It is first of all the quality and character of the business situation that merits the attention of the economist and statistician. Is the situation sound or unsound, and out of the present situation what is likely to emerge?

Most Likely Economic Developments

I shall discuss what seem to me the most likely major economic developments of 1948, bearing in mind particularly their quality or dynamics which in the last analysis will give the year its real flavor.

The first proposition I would make is that the current upswing in consumers' non-durable goods production will not last through the year. The present improvement in production of consumers' non-durable goods, accompanied by higher prices and by renewed inventory accumulation and rising forward commitments, is being abetted and accelerated by the fear of inflation and, in no small part, by official warnings from Washington. On the demand side the cashing of terminal bonds and bonuses is causing a temporary artificial stimulus which adds to the speculative buying wave by manufacturers and retailers. The price increases of manufactured soft goods scheduled for spring, coming on top of food prices that will likely continue to rise, will probably mean within six to nine months a duplication of the situation late in 1946 and early in 1947, except in a more severe form. More consumers will be priced out of the market, inventories of soft goods will again become a burden and another period of unsettlement in soft goods industries may begin some time in the summer or fall of 1948.

A further rise in the cost of living will accentuate the present distortion between incomes and prices and will aggravate the problem of inflation controls. With the present relatively conservative Congress it is unlikely that any effective steps will be taken to stop or reverse the inflationary trends. It is more likely that the rapidly developing distortions and economic maladjustments will finally cause deflationary forces to gain dominance.

A further rise in the cost of living will also supply the labor unions with additional ammunition for wage demands which are likely to be granted in the light of the excellent current corporate earnings in most industries.

Consumers' Durable Goods Activity

My second proposition is that consumers' durable goods industries will continue extremely active through most of the year, if not the entire year, but that no rise of importance is likely to occur from the present level of consumers' durable goods production. We are probably close to the peak rate of output in these industries because of availability of labor and raw material supplies. Substantial inroads will be made in the deferred demand for many of the products of these industries still in short supply, such as refrigerators, washing machines and automobiles. This will be more true when price increases take place.

My third proposition is that investment by industry in durable equipment will reach a peak and begin to decline during 1948. Many companies have already passed the peak of their plant and equipment expenditures and many more will during the coming year. Orders for machinery and equipment are below shipments and unfilled orders are declining. The present unfavorable trend in the prices of bonds and preferred stocks is having a dampening effect upon the long range expansion plans of some companies. The large rise in prices and in the volume of business resulting in higher payrolls, receivables and inventories is impinging on the working capital position of other companies, leading them to take a more conservative viewpoint towards further substantial long-range commitments for plant and equipment. The abnormal trend, in many corporations, of lower profit margins with an expanding dollar volume of business has serious long-range implications for future profit margins under more normal conditions. All these elements are likely to become more rather than less important during 1948 and may well mean that capital investments by industry in durable equipment will be at a lower rate a year from now than they are at the present time.

My fourth proposition is that private construction will be greater next year than in 1947. This will result largely from a greater dollar volume of residential, commercial, utility and public and semi-public construction, and it will occur despite some decline in industrial construction. The total dollar volume of new construction, however, will not be up much. The construction industries are handicapped principally by the serious increases in cost which is a real hazard inherent in making long-range commitments.

My fifth proposition is that our net investments abroad, including net exports of merchandise and capital, will be no greater than in 1947 and may be less.

The Marshall Plan will be scaled down substantially by Congress and the difficulties of spending huge sums, apart from expenditures for bulk commodities such as foodstuffs and coal, are considerable. It will be some months before the actual flow of goods will begin. To keep our net investments abroad at the 1947 level will be a remarkable achievement.

No Reduction in Government Spending

My sixth proposition is that government spending for goods and services will be as high in 1948 as in 1947. Government payrolls are likely to be as high, if not higher. Expenditures for our peacetime military establishment and for our obligations abroad are likely to increase rather than to decline, particularly because the political situation in Europe will continue tense. This may lead to increased military expenditures at home and, moreover, we are going to take over a large part of the cost of the occupation of Germany.

The net result of all this is that in 1948 we are likely to deal in a great many more dollars, on an over-all basis but there will be little, if any, increase in the unit or physical volume of production: that we may start another period of retrenchment in the soft goods industries in the last half of the year, which may come at a time when capital expenditures by industry for durable equipment are declining and which therefore may have greater repercussions than was the case in 1947; and that this combination of circumstances, if accompanied by good crop conditions here and abroad, could mark a real turning point in the price level.

It is clear that we are at present under the influence of some powerful economic factors of transitory character—the huge reequipment of American industry, the concentrated deferred demand for consumers' goods, particularly consumers' durable goods, and, beginning in 1948, the stimulus of spending under the Marshall Plan which we hope will also be temporary. It is also clear that the boom will be supported to an increasing extent by rapid credit expansion — to the consumer through increased consumer credit and mortgage loans, to industry through commercial loans or long-term serial notes, and to our friends abroad through government loans under the Marshall Plan.

This credit expansion in 1948 may be rapid enough to further strengthen interest rates even though they will continue low on the basis of past history. The result will be that the prices of high-grade fixed-income bearing securities may continue to decline at least for a time. The effort to hold long-term governments at par or above under the circumstances may prove a difficult task. Even a further small rise in interest rates on an absolute basis will make a substantial difference in the prices of many low-yielding senior securities which were issued during the last two years.

This picture of 1948 suggests that economic quantities will be large in dollar terms, but that the quality of economic developments will not be of the best. It also suggests that the coming year will have its full share of important economic and political developments. Our economy is being supported to an increasing extent through expansion of the dollar output of consumers' goods and services while capital formation is not expanding. To keep going at the present or at a higher rate our economy has to be supported by an expanding rate of capital formation, principally through increased capital investments in plant and equipment by industry. The needs for additional investments will become smaller and the funds to finance further expansion more difficult and more expensive to obtain. If capital formation does not increase further or actually declines, the expansion in dollar output of consumers' goods and services is limited in both extent and in time.

In conclusion, may I add two final propositions. The first which I believe on a statistical basis ought to please approximately one-half of you, is that there is at least a 50-50 chance that Truman will be re-elected in 1948. The second, which I know will please all of you, is that the budget surplus in the first six months of 1948 will be so huge that reductions in individual income tax rates will virtually be forced on Congress and the Administration.

Bond Club of Buffalo Elects Rochester Pres.

BUFFALO, N. Y. — The Bond Club of Buffalo elected DeLancey Rochester, Jr., DeLancey Rochester Company, President. Other officers elected were W. Morgan Kendall, Vietor, Common & Co., Vice-President; Herbert C. Stearns, Schoellkopf, Hutton & Pomeroy, Inc., Secretary, and Clarence H. Littell, Jr., Trubee, Collins & Co., Treasurer. New directors are Homer Browning, Marine Trust Company; Robert W. Forrest, Forrest, Hammil & Co.; Mr. Littell; Frank L. Marshall, First Boston Corp.; and Charles L. Staples, Halsey, Stuart & Co.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Eugene T. Turley has become connected with King Merritt & Co., Chamber of Commerce Building.

Compulsory Military Training—Wasteful Act of War

(Continued from first page)

training men, even for ambulance duty, nursing, firefighting, or first aid, will assist us much in case of an atomic raid? In Hiroshima the men trained for this purpose could not function; they were killed. The complete disorganization produced by a surprise atomic attack means that no form of preparation can be of more than accidental advantage.

Can universal military training prevent a war? The notion that large military forces preserve you from attack is as old as mankind. It is like the notion that wars will stop because they are so horrible. The fact is that large military forces merely stimulate other nations to build up their military forces. They suggest to the warmongers and jingoes in other countries that you are out to dominate the world and that every country must arm against you. And for this country to talk about universal military training is the acme of provocation, for this country now possesses the exclusive monopoly of the most deadly weapon in history and has greater productive power than all the rest of the world put together. If this country, so equipped, has to have military training, what does it have to have it for? No other nation will believe that it has to have to protect it from attack. It must therefore want to have it in order to attack somebody itself. Universal military training in the United States is an act of war.

Rediculous and Wasteful Act of War

It is a ridiculous and wasteful act of war. It cannot protect us. It will inflame other nations against us. It will weaken us, for it will waste our resources and the time which our young men should be giving to more profitable undertakings. And since other nations know that universal military training is a military absurdity in the United States in the atomic age, they will not be deterred from attacking us because we have such training. If they are bent on attacking us, they will attack us whether we have universal military training or not; for they know that large masses of men cannot threaten a country which has the atomic bomb; and they know that large masses of men cannot defend any country against the atomic bomb. Large masses of men are now irrelevant.

Not an Educational Program

So much for the military aspects of universal military training. The program is so weak as a military program that it has been thought necessary to bolster it up by calling it an educational program as well. It is even suggested that it will have splendid effects upon the morals of the young. As to this I can say only that it would never occur to me, after two years as a private in the army, to attempt to improve the character of my son by putting him in the care of a marine sergeant. Education, it would seem, can best be conducted in institutions established for the purpose by persons who have dedicated their lives to the cause. The army can train men to be soldiers, just as engineering plants can train men to be mechanics. Neither armies nor engineering plants can educate men to be men.

If I understand the proposal correctly—and I may not, for I have not had a chance to read the 188,000 words of the report—it involves discriminatory provisions like those which afflicted the Army Enlisted Reserve Corps of unhallowed memory. Apparently boys who can afford to go to universities, at least to those which have Reserve Officers Training Corps, will not be required to spend the last six months undergoing the trials and hardships of army life. They will be privileged to enter the university, and there spend a few hours a week in polite military maneuvers, while their less fortunate brethren remain under the supervision of the armed forces.

The primary requisite for entering upon the higher learning in America is money. Those who have the money can go to the university. Those who have not cannot. Therefore this proposal — if I understand it correctly — is a proposal to give six months' military training to those who have money and 12 months' to those who have not.

U. S. Not in Danger of Attack

The whole plan reflects that American attitude toward education. Only a country which regarded education as unimportant could seriously consider such a scheme, unless, of course, it was in imminent danger of attack and felt it necessary to keep its full manpower under constant mobilization. The United States is not in imminent danger of attack. It is the most powerful nation on earth. If it were in imminent danger of attack, or if it were the weakest nation on earth, universal military training could not assist it. But I venture to predict that little objection will be raised to the proposal on the basis of its most serious defect, and that is its interference with the educational opportunities of the young. The reason why little objection will be raised on this score is that we do not regard such opportunities as of much significance. They are nice, but they are not necessary. And they may not adequately fulfill the parent's dream, which is to have his son taken off his hands and taught the things he should be taught at home, such as punctuality, neatness, discipline, and good order. These, the American parent will say, will be drilled into my son in the army. I do not want to take the trouble to teach them to him myself. He may not learn them at college. I am for universal military training.

I will not here discuss questions of etiquette, for they do not seem to me of much importance one way or another. But certainly if we are talking about character the place to develop it is anywhere but the army. By character we mean the moral habits of a man. Habits are formed by acts. But those acts, if they are to have any significance in a democratic country, must be the result of free and independent choice. The army is distinguished by absence of choice. The soldier is told what to do, and he soon learns not to do anything he is not told to do. Only if we want a race of men who will do what they are told and will not do anything they are not told should we look to universal military training to build character.

Joins Buckley Bros. Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Samuel S. Isenberg, Jr. has become associated with Buckley Brothers, 530 West Sixth Street. He was previously with Edward J. Bourbeau & Co.

With Capital Securities

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF. — Richard W. Marland and Ralph M. Watson have become affiliated with Capital Securities Co., 2038 Broadway.

Economics Collides with Ethics

(Continued from page 4)

current experience and the immediate wisdom we draw from it so painfully?

New Deal Relating Ethics to Economics

Economics thus has difficulty in preserving its scientific status. Some practitioners of this quasi-science have apparently given up all hope of its being a science and have related it closely to ethics. Particularly in the period of the New Deal, the assumption appears to have been made by the practitioners who were most listened to at the time, that society had the ability to control the great mass of individual behavior and direct it toward ethical ends, leaving only a remnant of scientific theory to pick up the loose ends of the situation which was being considered.

Examples of which were to be found in the extremes of the purchasing power theory which involved the raising of wages beyond previous experience and the redistribution of wealth by taxation. It was expected that the resulting low profits would lead to a strong endeavor to increase them by high volume production based on the high purchasing power. This did not work. It discouraged much marginal production whose contribution was needed for the total volume. It provided no inducement for capital to increase and improve facilities, as was needed for expanding output, and in general it discouraged enterprise rather than encouraging it.

High ethical motives guided the prevailing economists of this period. But economic rather than ethical influence prevailed and this incursion of ethics into economics did not turn out too well.

On the other hand, as I propose to explain, it seems to me that pure economics of the laissez-faire type, devoid of ethical considerations, is not getting along too well at the present time nor does it show any signs of getting on any better in the near or distant future. Ethics and economics are in the position of shouting and throwing stones at each other. It looks as though something needs to be done to get them to work together instead of contending one with the other. We have, in fact, entered a period in which laissez-faire is obviously breaking down for reasons which are new, and which demand our serious attention. To bring your consideration to these matters is the purpose of this talk.

Social Objectives Ethical

As we face the problems in view for the present and coming months, it is possible to make a statement of our present social objectives. These objectives may be conceived of as being ethical in their nature. We are most concerned with two of these objectives. The first is the avoidance of inflation. The second is the maintenance and improvement of the general standard of living in this country, which includes the purposes of continuing high employment, increasing production, and providing a fair and reasonable distribution of the products of production.

It is our purpose to avoid inflation because it results in serious injustices. Those who are living on their savings in whole or in part are particularly affected. Those savings have less and less value as inflation proceeds. Likewise handicapped are those who are dependent on pensions or other forms of retirement funds or payments.

It is becoming apparent that a considerable group of those living on current wages are likewise being left behind as the wages of others in the working group rise higher and higher as the average of wages increases. While the wage adjustments made previous to VJ Day tended to raise the level of the lower earning group with reference to the whole, there seems reason to believe that no longer to be the case. The successful demands for higher wages are more generally pressed and gained by those already in the group of the better paid.

Structure of Inflation

The structure of inflation is simple. Our enormous store of money and bank credit available for purchases, applied against a nearly stationary rate of production and distribution, offers opportunity and pressure for prices mounting up proportionately to the limit of the division of that production into the available purchasing power. This sets the ceiling on inflation.

That ceiling can be lowered by reducing purchasing power or by increasing production. I share with businessmen and bankers generally the doubts as to whether the use of monetary means for reducing purchasing power can safely be applied. Have we any experience to indicate that it has been applied historically without resulting in a rather severe reduction in employment and production? This interferes with our second objective which is the maintenance of employment, the expansion of production and the increase of purchasing power.

It seems probable that reduction of our money supply by fiscal means safer than by monetary remedies. The maintenance for a considerable period of high receipts from federal taxation and the careful and resolute trimming of governmental expenditure will result in continuing high budget surpluses. To the extent that these can be applied to the reduction of the bank-held government securities, to that extent can our swollen money supply be most safely reduced.

Some tax reduction is indicated. It should take forms which give relief to the classes most seriously handicapped by inflation. These must likewise be carefully worked out plans for such tax reduction as will specifically, rather than loosely, apply to funds which go into capital expenditures and thus increase production. These seem to be the safe ways to lower the ceiling.

It is doubtful, however, whether inflation has actually hit that ceiling. Is there not a mechanism of inflation working under that ceiling and tending to push prices up to it? That mechanism would be the wage-cost-price spiral now at work, and with another revolution of its machinery already being arranged for. We have to consider both parts of the problem, that is, lowering the ceiling and arresting or slowing up the mechanism. Since the mechanism makes its own contribution to the money supply by expanding credit, we have a double interest in putting brakes on the soaring spiral.

What can be shown, I believe, is that the slowing up of this spiral under conditions of high employment necessitates what we have been accustomed to think of as ethical considerations, besides those which we are accustomed to think of as purely economic. Where do the ethical considerations come into the wage earners' area of action?

Relation Between Full Employment and Inflation

There is a quite evident relationship between full employment and inflation. Without discussing at this time the question as to which comes first—wage advances or price advances—it is quite clear that with full employment and heavy purchasing power the ordinary limits on both wage advances and price advances disappear. If the worker can leave one job without doubt in his mind as to whether he can get another, he will be much more confident and persistent in making wage demands than he will be otherwise. If the manufacturer finds himself in a seller's market, the ordinary restraints on raising the price of his product disappear. This describes in simple terms the malady we are suffering from today.

Whether the initial impetus comes from high wages or high prices, they react on each other with deadly precision. High wages increase costs and power. The increased costs are reflected in increased prices, which find the high purchasing power available to move into consumption and enjoyment the goods and services produced. Finding that this results in no net increase in consumption, the desire for high wages again expresses itself through another profitless revolution of the machinery of inflation.

It should be sufficiently clear that no actual improvement in consumption is possible without an increase in production. Without that increase, a rise in wages or profits simply makes the goods produced cost more. There is, of course, on the part of organized labor a feeling that profits can be dipped into and thus shared in equitably, but there are limits to this process. It is generally considered that a net profit of around \$17½ bililon resulted from our present annual production rate of \$200 bililon. This means less than 9% of the total. The wage increase being asked, if obtained by all those engaged in productive work, would go far beyond this maximum of 9% available for distribution.

Inequitable Wage Advances

What is happening, of course, is that a temporary advantage at the expense of the rest of the workers goes to those organized groups which get the first advances in a new round of increases. This they gain at the expense of other groups who are slower in making and gaining their demands. They have to hurry to catch up. Some groups never catch up. This considerable body of those left behind is growing and constitutes our most serious internal social problem at the present time.

It is clear that the existence of a body of unemployed would slow up this inflationary process. We are not satified to have that body of unemployed. We must find some other way to avoid inflation. How can we do it?

I regret that I can see no simple or easy way. In fact, the only way is a hard way. That hard way is a matter of self-discipline for organized labor and for business management. It involves first the understanding of the simple truth that we consume and enjoy only what we produce and that there is no use trying to raise the standard of living by raising wages and profits if, in the process, we do not produce more. Yet it remains true that powerful and enterprising unions can temporarily at least gain an advantage over their fellows who are unorganized or are members of weaker organizations. The high wage group can demand and get still higher wages. This is good laissez-faire doctrine. They can only do so in most cases by raising the cost of their product to their fellows who are left behind and get no corresponding increase in purchasing power. The successful group has climbed up on the bare backs of the submerged group. This is good laissez-faire, but it is bad ethics.

Ethical Considerations in Business

Now, what about business? This group has also to weigh ethical considerations against the "strictly business" point of view in which the businessman has been educated to believe as the social law and gospel. He must resist the easy balloon-like float into the upper reaches of inflation by proper action as to wages and profits.

We were enjoying a respite from the advancing spiral during the last winter and spring. Wages and prices were in an uneasy balance. The cost-of-living curve had flattened out and there was expectation of a decline. It was true that prices were not in line with each other and needed readjustment. Likewise, wages in different occupations were out of line with each other and needed readjustment. As experience shows, only in a real depression can that be done by any other means than by leveling upward. Profits of the great majority of the business firms who publish their own reports were unusually large for peacetime. This gave promise of making an easy undertaking of the needed price and wage adjustments. The only intractable factor in sight was the cost of food, and with good harvests this was expected to level off, if not decrease. The whole outlook was hopeful.

In the early summer two disasters changed this hopeful picture. The first was the heavy rains and resulting floods which prevented planting corn and other grain crops at the proper season. This was particularly unfortunate so far as the feed grains were concerned. They enter into the production of almost every food except fish, fruit and vegetables. Their abundance or scarcity is a determining factor in the supply and price of meat, milk, butter, cheese, poultry and eggs. There might still be sufficient supply at moderate cost were it not for our large foreign commitments for feeding Europe — commitments dictated by both political and humanitarian considerations. As it is, the near prospect for any decrease in the food element of living costs is something less than dubious. It is disheartening.

The John Lewis Calamity

The second calamity was the history of John Lewis in his negotiations with the United States Steel Corporation and the Northern mine operators, and the price increases in steel which followed. I call this a calamity because it will surely prove to be one unless the lessons it teaches are quickly learned and acted upon.

The incident presents the type situation, in an exaggerated form, of the difficulty of avoiding inflation under conditions of full employment. In a key industry on which the whole industrial economy of the country is dependent, record-breaking demands as to wage and benefit payments were made. With little public appearance of resistance, terms were accepted which amount to an increased cost in wages and benefits of 44 cents per portal to portal hour. For each hour spent at the working face the increased cost is still greater by an indeterminate amount, depending on local conditions.

In late July, shortly after the coal settlement, the United States Steel Corporation announced substantial increases in the price of steel. These were followed in due course by increases in automobile prices and electrical appliances. Industry officials made clear in announcing the advances in prices that they were due to increased costs during the first six months of the year and did not reflect the boost in the miners' pay. Therefore, are we to expect a further round of price increases as a result of the wage cycle that the coal settlement precipitated?

Full Employment Ends in Inflation

If we are right in our conviction that full employment tends to end in inflation, and if the successful Lewis campaign is a large scale example of the working of this fateful economic tendency, then the parties to the negotiations failed wittingly or unwittingly, in their duty to the nation.

As I said in a U. S. Chamber of Commerce meeting last September:

"The industry might have fought vigorously for less extreme terms. Better yet, it might have discussed the matter with John Lewis on broad grounds of public policy, affecting miners' interests as well as those of their employers. In default of obtaining more reasonable terms by these means, the problem might have been brought before the bar of public opinion, so that its true nature as a question of public policy was revealed. It could have been submitted to arbitration.

"None of these courses was pursued. A complete surrender on major points was accomplished.

"Having surrendered, the United States Steel Corporation raised its prices, as I have already stated, announcing that the increase was not connected with the coal settlement. This left the way clear for a further boost in the price of steel later on the basis of the increased cost of coal. Should the corporation have raised the prices? Prices should cover costs, including a normal profit rate, but in the public interest they should not be increased at this particular time to include excessive profits or excessive depreciation. Full employment and stability are promoted by a high-wage, low-profit per unit economy. To implement full employment, the rate of depreciation and the rate of business profits need to be brought into relation with the requirements of continuing equilibrium in a dynamic society. This means a low-pricing policy.

"Now it is dangerous for an outsider to pass judgment on the wisdom of these price rises. I, myself, hesitate to do so. There were without doubt inequalities in pricing left over from OPA controls. But I do know that the business which makes a price rise at this time is shovelling fuel onto the fires of inflation. Price-setting, as well as wage setting, has become a public responsibility for our major industries."

Like the Munich Pact

"It is possible to draw an ominous parallel between this economic event of 1947 and a certain political event, of 1938—between the coal settlement and the Munich Pact with the Nazis. In both cases peace seemed to be of such supreme importance that almost everything else was sacrificed for it. If the peril of inflation under full employment is as alarming as it seems to be, the parallel holds. Peace has been purchased, but at too high a price to be repeated. It has been purchased at the price of mounting and uncontrolled inflation which in the past has always ended in a precipitate and correspondingly deep depression. Such a depression would be a sad end of our hopes for maintained high employment, production and consumption.

"Let us take another look at Munich. The appeasement and its immediately following events seemed like a great victory for Germany. But where are the Germans now? They suffered the worst fate of all. This Lewis appeasement cannot in the long run produce any benefits to the miners, if our analysis is correct. Some of them at least suspect this. The Associated Press in 'The Washington Post' for July 9 reports one miner, soberly returning to work, as saying: 'I hope these wage raises don't go out the window in the higher cost of pork chops. It's the best contract we ever had, but it's likely to hit us right in the breadbasket'."

There is yet another link in the mechanism of inflation where

automatic operating economic forces need to be tempered by ethical judgment.

The demands for higher wages are supported by increasing living costs. Increasing living costs are almost entirely produced by increasing food costs. Most of the food costs are under control as compared with the cost of meat. The law of supply and demand rather than any profiteering all the way from the stock yards to the consumer is what is setting the price of meat. In a way, therefore, the whole problem of inflation focuses down onto this one food. Unless we can reduce effective demand by voluntary rationing, I have come to the reluctant conclusion that we will have to institute statutory rationing in this one food product.

Price control will not be needed. The law of supply and demand will take care of price if we can control effective demand at the consumer level by rationing. Furthermore, rationing will more equitably distribute the available supply. That great body of consumers who are being left behind in the inflationary race for higher incomes will have access to a regulated supply of lower-priced meat under rationing. This is denied to them now.

It must come as something of a shock to realize that we are right now reaching the limitations of food production in this country so far as the important staples are concerned. It is the European emergency which has brought us to this realization. When we have a requirement for European relief of one-third of an unprecedented and probably unrepeatable wheat crop of 1,400,000,000 bushels, and when this requirement comes on top of full employment with an unprecedented domestic demand on food production of types allied to grain production, we suddenly find ourselves bumping the ceiling of this country's resources.

In large measure, the domestic market resulting from full employment is the thing that needs looking at. It has demanded a meat production per capita for which we have to go back to the year 1909 to find any precedent. In that year, the population of our country was only about 91,922,266. Today, that population is about 142,000,000. The range acreage and the feed-grain acreage now no longer exist to produce a higher per capita consumption with our increased population.

Danger of a New "Dust Bowl"

For one thing, the world demand for wheat has been so great that we have again ploughed far into range lands which should have been left in grass. We are again preparing for a dust bowl. In so doing, the best range lands are being reduced and our capacity to produce meat animals is correspondingly diminished.

The desire for a given amount of nourishment from meat as compared with demand for the same nourishment from grain is a serious drain on grain supplies. It means that for the same amount of calories we have to use from three to ten times as much grain for meat as for direct consumption.

Now, so far as food is concerned, the desire for a higher standard of living expresses itself principally in a desire for more and better meat. On this we have reached the limit. That limit was lowered, it is true, by the failure of the corn harvest, but the unprecedented wheat harvest helped to maintain it. We have no right to expect as good grain harvests again next year or the year after, or more than exceptionally in the years to come. We have reached the limit on domestic production and consumption and must find some way of adjusting ourselves to that unpleasant fact.

Permanent adjustment will come as the income of the depressed groups is adjusted upward, as they may be if the moving spiral of inflation is arrested. Then meat price can safely be left to find its natural level and all elements of society will find the supply more equitably adjusted.

But meanwhile governmental intervention threatens one of our few remaining free markets—that for livestock. Why should the stock raiser and feeder be denied the privilege of free markets? It is because he, too, as well as business and labor, must make his contribution to the public good!

For the public good his prices must not be allowed to sink below the level which will bring out high production. If set at or near this level there is room for considerable reduction in meat cost, high production is assured, and the farmers on range and feed lot get a good return for their investment and effort. That it would be less than at present is a measure of the sacrifice which they can put alongside that of business and labor in the joint effort to arrest inflation and lessen the personal hardships which inflation entails.

Actions for Arresting Inflation

Let us sum up these actions necessary for arresting inflation while maintaining employment, production and consumption. Not all the helpful actions are listed—only those having an ethical content. Policies of government, labor and business are concerned.

As to lowering the inflationary ceiling, we have discussed a fiscal policy which would not ordinarily be considered a political asset for the party proposing it. The tax proposals made have little evident political appeal.

As to arresting the machinery of inflation which operates below the ceiling we are suggesting that government contribute to slowing down the rise in living cost by rationing the largest factor—meat. This would run counter to the immediate self-interest of stock raisers and feeders and would have to be sold to them on ethical grounds.

Business is asked to contribute by withholding further price advances, particularly in products which affect the cost of living. It would be better yet to have some price lowering here and there. This need comes at a time when business profits on the whole have been as high as they have ever been in our peacetime history. In some cases, the price cut could not be large, particularly where these high profits are made by small margins on rapid turnover, but it should be made as a token that the serious dangers which are arising from unarrested inflation are appreciated.

With government (at some expense to stock raisers and feeders) and business taking action which should arrest the rise in the cost of living, public opinion will be so strong on the side of stability that the threatened wage increases would not be pressed to a conclusion. We would then be in at least as good a position as we were last spring before the coal miners' agreement set us off anew on the inflationary climb.

Of those asked to make sacrifice of immediate interest for the long-range common good, it is probably that the businessmen will protest most vigorously. An example of this is to be found in an article in the Business Section of the New York "Times" of Sunday, Dec. 21. Mr. Hartley W. Barclay in that issue writes an article entitled, "New Law Termed Spur to Inflation." Reference is here made to the anti-inflation legislation passed in the session of Congress just completed. Leaving that question aside, the article does indicate that some corporation's spokesman "Feared the bill would eventually result in 'placing the blame solely upon industry.' They said this legislation assumes that business executives have some special ability to keep prices down regardless of conditions of supply and demand, wages and raw materials costs and taxes."

They do have this ability within the limits of their profit margins. This ability has been shown by the action of the automobile builders in not raising their prices to the economic level. In an age of large, nationwide and commanding industrial units, other corporations can do the same. They must do the same as a part of their contribution to holding the cost of living in check and through this means arresting the present inflationary movement.

What are these ethical questions anyway, with reference to which it is suggested that the wages of labor and the profits of industry and agriculture should be placed under self-restraint? It may well be that ethics is only long-range self-interest.

Many years ago a disciple of William James, whose name I have forgotten, wrote a little thin book entitled, "The Foundations of Ethics." The thesis of that book was that ethical action and action taken in long-range self-interest are one and the same thing. His contention was so carefully supported by his argument that ever since reading it, it has been difficult for me to define ethical action in any other way.

In any event the necessary actions which have been called ethical in this address are of a kind which definitely come under the heading of long-range self-interest, as distinguished from short-range self-interest. To get them into action there is therefore needed a more intelligent view of what will benefit one's party, one's business and oneself in the years to come, rather than looking for the advantage to be gained for tomorrow or next week.

If we can be brought to see our own best interests clearly enough, it may well be that ethics and economics will cease to be in even apparent conflict and we will all move forward together on a new plane of material and spiritual well-being.

This address has been prepared with the hope of drawing sharp attention to the need for this pull of self-interest at a higher level than is ordinarily considered to be effective in conventional economics.

Wallace to Run For President

(Continued from page 14)

nitely less than organizing for war.

We who believe this will be called "Russian tools" and "Communists." Let the fear mongers not distort and becloud the issues by name calling. We are not for Russia and we are not for communism, but we recognize Hitlerite methods when we see them in our own land and we denounce the men who engage in such name calling as enemies of the human race who would rather have World War III than put forth a genuine effort to bring about a peaceful settlement of differences.

One thing I want to make clear to both Russia and the United States—peace requires real understanding between our peoples. Russia has as much to gain from peace as the United States, and just as we here fight against the spreaders of hate and falsehood against Russia, the Russian leaders can make a great contribution by restraining those extremists who try to widen the gap between our two great countries.

I insist that the United States will not be fully secure until there is real peace between this country and Russia and until there is an international police force stronger than the military establishment of any nation, including Russia and the United States.

I am utterly against any kind of imperialism or expansionism, whether sponsored by Britain, Russia, or the United States, and I call on Russia as well as the United States to look at all our differences objectively and free from that prejudice which the hate mongers have engendered on both sides.

Wants UN Disarmament Conference

What the world needs is a United Nations disarmament conference to rid humanity for all time of the threat not only of atomic bombs but also of all other methods of mass destruction.

It happens that all of my mother's and three-fourths of my father's ancestors came to this country before the American Revolution. I love the Americanism I was taught to respect in the public schools of Iowa half a century ago.

That Americanism was betrayed after World War I by forces which found their origin in monopoly capitalism, yellow journalism and racial bigotry. Today there is a greater menace than ever before—a menace more serious than has ever confronted the human race.

That menace can be met and overcome only by a new political alignment in America which requires the organization of a new political party.

Announces His Candidacy

To that end I announce tonight that I shall run as an independent candidate for President of the United States in 1948.

Thousands of people all over the United States have asked me to engage in this great fight. The people are on the march. I hope that you who are listening to me tonight will lead the forces of peace, progress and prosperity in your communities and throughout our country. Will you let me know that you have come out fighting against the powers of evil?

We have assembled a Gideon's army—small in number, powerful in conviction, ready in action. We have said with Gideon, "Let those who are fearful and trembling depart." For every fearful one who leaves there will be a thousand to take his place. A just cause is worth a hundred armies.

We face the future unfettered by any principle but the general welfare. We owe no allegiance to any group which does not serve that welfare. By God's grace, the people's peace will usher in the century of the common man.

Inflation and Common Stock Prices

(Continued from page 4)

ancy that the profit rate on invested capital will be augmented. The same economic principles govern the costs, prices, volume of output, profits, and the struggle for existence between firms and industries, whether the price level be at an equilibrium around 100 or at a new equilibrium at say 170. Although it is true that the total dollar profits arising out of an enlarged national income flow would be larger, it is equally true that a greater capital investment would be required to do business, and in the long term proportionately so.

Whatever substance is carried by the argument for an increased profit rate on invested capital must be confined within the intermediate term of a new equilibrium at a higher price level. It is based on the concept that the existing capital facilities cannot be replaced at the same favorable valuation now carried on company balance sheets and, therefore, the profit rate on the older capital investment will be increased automatically. Any credence attached to this argument must be limited to the intermediate period, since with the passage of time the older facilities will wear out and their replacement at high costs will require a proportionately enlarged capital investment. But even in the intermediate period this line of reasoning is partially specious, and there can be no foregone conclusion that the profit rate will develop such a pattern as to permit the full play that at first appears so advantageous to existing capital investment.

In the first place there is the higher maintenance cost of old equipment, in competition with new equipment on which maintenance is negligible, and maintenance costs would be increased by rising prices. In the second place there is the technological obsolescence of the older capital facilities in competition with the new, with the attendant effect upon efficiency and cost. In the third place, much of the capital employed by business is in the form of working capital, which must be enlarged by all firms, with no advantage vested in past investment.

In the fourth place, the transition to a higher price level accompanies and promotes an active rate of additional plant investment for the purpose of taking advantage of the prevailing high demand for goods. When the flow of finished goods becomes equal to the demand for them at the higher price level, the balanced condition is symptomatic of a sufficiently enlarged production structure, in which invested capital is sunk capital, all striving to sell goods in a competitive market while seeking to maximize profits or at least to minimize losses.

High Cost New Investment

The final result may compel the acceptance of very little profit or even actual loss on the latest high cost investments, while simultaneously permitting a satisfactory profit rate on the older investment. In such an event there actually would be a differential in favor of the previously existing capital investment, but arising in a very different manner than expected by those who accept it as inevitable that a higher equilibrium price level will automatically ensure an enlarged profit rate on older capital investment and, incidentally, higher earnings on shares of stock ownership. Fundamentally, the proponents rest their argument upon the assumption that all new capital investment will proceed at a steady rate, induced by the marginal investment opportunity over a long period of increasing demand, and thus providing a continuing advantage to the older investment by reason of an industrial pricing policy constantly based right at the marginal point of new investment cost. Such reasoning is invalidated by the likelihood that new capital investment will be "bunched," and that once made it becomes sunk capital.

Indeed, a differential may come about between the profit rate on old investment and new under circumstances that, even during the intermediate period, would permit only a normal rate of profit on the aggregate of invested capital.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

PUEBLO, COLO. — Edward R. Mastro and Louis P. Mauro are now with King Merritt & Co., Inc., U. S. National Bank Building, Denver.

Philip D. Laird Dead

Philip D. Laird, retired member of Laird & Co., Philadelphia, New York and Wilmington brokerage firm, died in Atlantic City at the age of 59 following a stroke.

Timing Fiscal Policy

(Continued from page 11)

practical method for a reason which can be briefly summarized: in the present state of the science of economic forecasting, it will not work.

A forecast would be required for a period far enough in the future so that in the interim policy could be planned, adopted, and put into effect. In the United States, with its constitutional separation of powers, and the resulting duplicate and sometimes triplicate consideration of fiscal policies in first the executive and then the legislative branch, this would involve a longer view into the future than perhaps anywhere else in the world. If the President's budget recommendations were to be based on a firm economic forecast, a forecast with a very small margin of error would have to be made for a period 18 months in advance.

The narrowness of the permissible margin of error arises from the fact that while it is employment to which the forecast must be directed, it is the volume of unemployment which is significant for the public policy purposes being discussed here. A small percentage of error in forecasting employment will mean a large one in forecasting the residual unemployment.

Suppose, for example, that with the labor force accurately forecast at 60 million (and the assumption that it can be accurately forecast is gratuitous), employment is forecast at 56 million, with an estimated margin of error of 3 million, or about 5%. The unemployment forecast of 4 million will then be subject to a margin of error of 75%. If the error is in the negative direction, and the true forecast is unemployment of one million—an unattainably low level—then what is being forecast is considerable inflationary pressure, and measures to restrict economic activity are in order. But if the error is in the opposite direction, and the true forecast is unemployment of 7 million, then the public policy indicated is an expansionary one. Unless the margin of error can be reduced within such extremely narrow limits as to eliminate such uncertainty, forecasting cannot serve as the basis of firm policy recommendations.

Without presenting the evidence for lack of time, it may be asserted that error in forecasting is too great to permit the use of forecasting as a basis for timing changes in public policy. The attitude of the forecaster must still be like that which Byron expressed in a fragment written on the back of the manuscript of a draft of "Don Juan":

". . . at least the past were passed away,
And for the future (but I write this reeling,
Having got drunk exceedingly today,
So that I seem to stand upon the ceiling)
I say, the future is a serious matter;
And so," Byron concluded,
"For God's sake, scotch and soda water."

Forecasting as the basis for *ad hoc* policy arrangements is the one limiting case. The other is to adopt measures which remain in effect at all times without change in their provisions, which will provide automatic correctives for variations in economic activity. The use of such measures is feasible, but they cannot possibly be adequate to prevent fluctuations, or to mitigate their violence to a sufficient extent.

Examples *par excellence* are unemployment insurance, farm price supports and a progressive system of taxation, which reduces the tax drain upon one's income, even as a percentage of income, when income falls, and increases it when income rises. They operate when a loss of employment and income, or a reduction in income, has taken place. They partially replace the loss of income. Since they operate only in the absence of the original level of income, they cannot possibly prevent the fall in income from occurring, or restore the original level. In fact, since they achieve only partial replacement of income, the most they can do is to lessen the secondary repercussions, that is, to reduce the value of the multiplier—or, in lay language, lessen the spread of unemployment caused by the reduction in expenditures by the persons who first become unemployed.

Even if devices were established which granted complete replacement of lost income the effect would be only to prevent the multiplier from operating; that is, to limit its value to unity; not to restore the primary loss of employment and income. And this result would be obtained only at the cost of largely destroying the inducement to work.

However, though automatic stabilizers cannot provide adequate correctives for fluctuations in economic activity, they are extremely valuable tools for dealing with such fluctuations. For, by augmenting income and stimulating demand on the downswing, and by removing that stimulus on the upswing, they dampen the magnitude of economic fluctuations and thus reduce the size of the problem with which other measures must deal. This observation is pertinent, not merely to problems dealing with unemployment, but to the problem of meeting inflationary pressures as well. For example, except for the sharp increase in corporation and individual income tax liabilities since mid-1946, the inflationary pressures which have been in operation since that time would certainly have carried prices higher than has actually been the case. The automatic stabilizers which are now in effect could be made much more powerful. Professor Hart's paper makes suggestions for their improvement.

If neither forecasting the appropriate time for change, nor providing automatic stabilizers, will work adequately, then it is necessary to devise methods of acting promptly after the fact. Promptness is essential once the prescription is clear; otherwise the swing in conditions may gain too much momentum. Four methods of obtaining quick action may be used. These I shall call automatic timing; timing by a Congressional trigger; administrative discretion subject to Congressional veto, and complete administrative discretion.

The legislation itself may provide for a change in its structure when economic conditions change. A hypothetical example would be the provision that income tax rates in the first surtax bracket should be reduced from the present level of 19%—assuming that to be accepted as the standard rate—to half that amount, effective on the first day of the second month after the Monthly Report on the Labor Force has recorded unemployment of 4 million for the third successive month, or unemployment of 6 million in any one month. On the up side, the standard rate should be restored, not as soon as unemployment fell below say 2.5 million, but only when, in addition, consumer prices had risen by say 3% within any 6-months' period. Such a provision would not be completely automatic, for, of course, administrative action would be necessary to implement it. Since, however, administrative action *with no discretion* would be provided for, this method may be referred to as automatic timing. The suggestion that the change in rates should be effective on the first day of the second month after the economic event which calls it forth, is intended to provide the necessary time for the distribution and introduction of new withholding schedules.

I have suggested using the Monthly Report on the Labor Force as an index. An alternative index, namely, national income or personal income, would not be feasible, by reason of the greater length of time required for the collection of the necessary data. Another set of possible alternative indexes would be price series, consumer prices, for example. Professor Hart suggested the rate of change in consumer prices in his 1941 proposal for anti-inflationary changes in tax laws; I am suggesting a combined unemployment and price index, to serve a similar purpose. My preference for use of an unemployment series rather than a price series, to indicate when a downswing requires action, rests upon a judgment concerning the operation of the economic system and the causal factors influencing it, which it would be a digression to state here.

The second method, use of a congressional trigger to fire a gun which had previously been loaded, may be illustrated by the proposal advanced by members of the research staff of the Committee for Economic Development in 1946 in *Jobs and Markets*. It was there proposed that Congress should work out and enact a provision for tax reduction if, as, and when appropriate during the reconversion period. The piece of legislation would not set an effective date for the tax reductions, but would provide that they should be made effective by a joint resolution of Congress, if and when economic conditions made it appropriate. My proposal, namely, that this device should be used more generally, is, I think, peculiarly appropriate for tax changes. For Congress will not yield control over tax changes to administrative discretion, but might preplan changes which could be made effective, when conditions warranted, by simple passage of a joint resolution by Congress itself.

A joint resolution requires the signature of the President whereas a concurrent resolution does not. Provision for use of a joint resolution seems appropriate here, because it seems appropriate that the President should retain a voice in the timing of tax changes.

As a third method, Congress might authorize administrative discretion in changing policies, subject, however, to congressional veto of the proposed change. By this device, if both Houses of Congress pass a resolution opposing the proposed change, it fails of effect. But if either House sustains the Presidential recommendation, it becomes effective. An example in actual practice is the provision, in the Reorganization Act of 1939, and again in the Reorganization Act of 1945, for Presidential reorganization of the administrative departments, subject to congressional veto. Under these acts, five major reorganizations of administrative departments have been proposed by the President and sustained by one or the other House of Congress, so that they went into effect. A hypothetical example in the field of fiscal policy would be establishment by Congress of "target levels" for reduction of taxes, with the Treasury or the President granted authority to set dates for steps toward those levels, subject to congressional veto of the dates proposed.

Finally, a fourth possible method would be the granting by Congress of full administrative discretion, within wide limits. An example is the authority of the Board of Governors of the Federal Reserve System to vary rediscount rates at will, and to vary the reserve requirements for member banks within upper and lower limits set by law.

Conditions for Successful Use of These Mechanisms

Before it can be decided whether these measures would make it possible for governmental measures to counteract economic fluctuations effectively, and if so, which type of measure is most desirable, it is necessary, I think, to consider certain conditions which must obtain if attempts to stabilize economic fluctuations are to be successful.

One such condition is that the attempt must not be made to confine fluctuations within too narrow limits. To do so would involve the danger of producing perverse results through errors in judgment. Suppose, for example, that an attempt were made to hold unemployment (as now defined in the Monthly Report on the Labor Force) between upper and lower limits of 2 and 3 million, and therefore an expansionary force were thrown into operation as unemployment touched the 3-million level. Then the expansionary force might come into play just as autonomous forces were themselves reversing a small temporary downtrend, and the combined effect of the autonomous plus the deliberate expansionary forces might be to cause a significant inflationary surge. The effect that expansionary measures might have had, if thrown into operation as the recession of 1927 reached its trough, is a case in point. To avoid this danger, unemployment should be allowed to reach say 5 million, or it must have become clear that unemployment is bumping along above 5 million, rather than merely temporarily touching that level at the trough of a minor cycle, before countering action is taken. In fact if we were successful in holding unemployment below 5 or 6 million at all times, we should consider ourselves remarkably successful.

I would not like to have these comments interpreted to mean doing nothing to relieve the unemployed until unemployment reached at least 5 million. On the contrary, our system of unemployment insurance should be expanded in coverage, and the benefits available under it increased not only because of the automatic stabilizing effect, but because it is, in my judgment, immoral—in the truest social sense of that word—for the coverage and benefits of the unemployment compensation system of a wealthy country such as the United States to be as limited as ours now are.

It is important to note that this rule that measures should not be initiated until it is certain that reversing a trend will not carry too far, applies on the up side as well as on the down. We must be as afraid of unemployment as we are of inflation. If 5 million is accepted as the maximum tolerable level of unemployment then supporting measures should not be removed, or contractionary measures initiated, as soon as unemployment falls below that level. Nor, in fact, should action be taken as soon as unemployment approaches the minimum of 2 million. Rather, it should be taken when, with unemployment near the minimum, upward price pressures of some strength exist. Only then is there indication that with public measures withdrawn, other forces may be sufficient to sustain full employment.

These considerations of course pose the now familiar dilemma: What if with the existing structure of our economic system, inflation appears before full employment is reached? For lack of time I can touch upon this problem only cavalierly. The evidence of 1946 and 1947 does not to my mind demonstrate that this feared situation is inevitable—in fact the evidence of the second quarter of 1947 gives a certain amount of hope to the contrary. Steady increase in productivity may be sufficient to contain wage pressures without price rise. In my judgment, the chances are good that this is true. If it is not, slow price rise—say ¼ of 1% per month—should not be the cause for relaxing supports needed to sustain high employment. But it should be the signal for specific action directed at the causes of price rise. Considerably more rapid price rise before full employment is approached would be a warning that imperfections in competition, and group pressures, were seriously threatening the stability of our capitalist system. They would indicate the need, if not the feasibility, of measures too comprehensive and drastic to be outlined casually here.

A second condition is that a succession of measures shall be available if necessary at any given level of unemployment. For if a rigid plan is set up by which only one measure is available at unemployment of 5 million, a second at 6 million, and others at successively higher levels, then it could easily happen that the forces producing a downturn are strong enough so that the first measure merely counterbalances them and prevents a further decline. If no added measures are available at that level of unemployment we may then find ourselves frozen in a quasi-slump. To mention only the traditional measures, two layers of changes in income tax rates might be planned, a shelf of light public works, one or more shelves of heavy public works—for use in serious depression—and a set of monetary policies. At present, since reduction in excise taxes should be a part of our plans for postwar tax reduction, proposals for reduction of excise taxes toward long-run targets might be added to this battery for use in case of a slump; but in general excise taxes should not be among the programs subject to frequent change.

A third condition is that plans bold in magnitude must be available. In an economy the size of ours we need to think in terms of measures larger than we have faced in the past. The average budget deficit in the 1930's was \$2.6 billion, and the largest, \$4.5 billion; the average and largest cash deficits were about the same. If we are to deal adequately with situations which may and probably will arise, a combination of measures which have a stimulating effect equal to deficits of two or three times this magnitude may be required. On the other side, our cash surplus at present, (when adjustment is made for seasonal variations in tax receipts and expenditures) is running at perhaps \$5 or \$6 billion per year. The most significant fact about that level of surplus as a measure to counter the inflationary pressures we have been experiencing, is that it does not seem to be large enough.

A less important condition is that steps should be taken to prevent a perverse "anticipation effect." For example, at a time of inflationary pressure and high taxes, the possibility of a slump and lower taxes next year might cause producers to withhold their products in anticipation of lower income taxes, just at the time when the maximum volume of supply is highly desirable. This would be true, of course, only of certain types of producers. It might well be true, for example, of grain growers. This difficulty can, however, easily be eliminated by the introduction of averaging into our income tax system. If a taxpayer could average his income over a period of years in determining his tax liability, the specific time when he marketed his produce would not affect his total tax liability over the period.

Fifth—a condition which has been implied repeatedly above—the methods for initiating changes

in measures must be such that reasonably prompt action is possible. Otherwise the goal of preventing major fluctuations may be unrealizable.

The final condition which seems to me essential is a special case of the one preceding. If sufficiently prompt action is to be achieved in all circumstances, some degree of administrative discretion is necessary, for there may well be some contingencies too complex to be provided for in advance. If, for example, a slump is progressing with unanticipated speed—as in 1931—it may become clear that several measures should be thrown into the breach at once, without waiting to see whether the first measure used was adequate.

The Choice of Methods

It is clear, I think, that any of the four methods which I have suggested for initiating changes in employment measures—automatic yardstick, Congressional trigger, administrative discretion subject to Congressional veto, and complete administrative discretion—could be adapted to satisfy the first four conditions for successful operation of stabilizing measures—namely, that too narrow confinement of fluctuations must not be attempted, that a succession of measures must be available, that measures planned must be bold in magnitude, and that a perverse anticipation effect must be avoided. The choice of the method most suitable for timing any given measure must then rest in part on judgment as to which method will permit sufficiently prompt action and sufficient administrative discretion, and in part on political feasibility. For the method which in the abstract is the most efficient, is in reality the least efficient if its adoption cannot be obtained.

For monetary controls—notably debt management control of rediscount rates for Federal Reserve member banks, and open market operations—complete administrative discretion within wide limits is traditional. It would be desirable—and it is I think within the limits of political feasibility—to preserve that tradition by granting to the Board of Governors of the Federal Reserve system power to control installment credit terms and—far from important—authority to establish security reserves for all commercial banks, and to vary them within wide limits specified by law.

For fiscal policies—whether relating to taxes or to Federal expenditures — it seems clear that Congress will not grant any great measure of administrative discretion. This is true not merely because Congress is not now convinced that fiscal measures of the sort implied in my discussion and in previous papers presented at these meetings are desirable to meet the possibility of depression. Nor are the reasons merely those advanced by political cynics, namely the reluctance of any group to yield power which it possesses, and the desire of members of Congress to retain in their own hands credit for the initiation of such popular measures as tax reduction or public works projects.

In addition, there are deeper and sounder reasons, which are effectively stated in the debates which preceded the ratification of the Constitution, which are still pertinent, and which are undoubtedly entrenched in the thinking of Congress—and rightly so. So long as we retain governmental machinery embodying the doctrine of separation of powers, we must expect Congress to retain the power of the purse.

Nor can Congress be expected to delegate the power of the purse to automatic yardsticks, though the Constitutional reasons for not doing this are not compelling.

If flexibility of fiscal policy is to be attained, it must therefore be through methods by which Congress retains control of the timing. So far as tax flexibility is concerned, there seems no technical difficulty whatever in the way of pre-planning tax changes then tripping them off, when developments warrant, by joint resolution.

The tax most suitable for such manipulation is of course the individual income tax. Variation in that tax runs into the understandable difficulty that it is apt to be much easier to obtain reduction than to obtain an increase when increase becomes appropriate. It may be of considerable psychological advantage to consider the prosperity level of income tax rates as standard rates, and any reduction in rates in depression as a temporary abatement of the normal rates. Congress might also not be averse, once it had adopted the idea of flexibility, to providing that whereas tax reduction would be initiated by Congress, restoration of the standard rate might be accomplished either by joint resolution or by Presidential proclamation subject to Congressional veto.

So far as expenditure programs such as public works are concerned, a certain degree of administrative discretion is essential. Congressional acceptance and storage of a shelf of specified projects, to be initiated when the economic stimulus is needed, will not work. The shelf would constantly be changing, both because current authorization during prosperity of projects that could not wait would nibble away at it, and because plans, like structures, slowly or rapidly become obsolete. To ask Congress to approve, project by project, the seepage of projects from a list and their replacement by others would be to destroy the chance of success of the program. But it would be feasible for Congress to set up, in advance the standards for public works projects and public works grants, to create machinery for planning of an adequate shelf of projects, to determine the aggregate size of a national program of employment-sustaining public works activity and to initiate that program when the time came by simple speedy action, and finally to govern by specific legislation the nature of individual projects with especial national social significance, such as development of the Missouri Valley by a Missouri Valley Authority.

The Danger of Perverse Effects

The tools thus exist for planning in advance changes in fiscal and monetary policies, and for putting those changes into effect as economic conditions change, with only the minimum time lag needed to recognize the existence of change in conditions and to set the administrative machinery in motion. To the use of these tools one main objection is advanced which may be considered here. It is objected that because of lags in timing, the measures will act perversely, exaggerating instead of countering economic fluctuations.

The danger of perverse effect is far less now than it would have been 20 years ago, because the introduction of automatic stabilizers into the economic framework has damped down the magnitude of swings in economic activity resulting from any push in the wrong direction, or, for that matter, in the right direction. Strengthening of those automatic stabilizers is in order, as I have suggested. The remaining risk of perverse effect is minimized by three provisions, already discussed, which ought to be a part of any scheme: that the lag in adapting policies to changed conditions shall be held to a minimum; that re-assessment of policy measures shall be possible with the same short lag, and that to avoid confusing a minor fluctuation with a major change in level of aggregate demand, expansionary action should be withheld until employment has fallen to the lower tolerable limit, and contractionary action until employment has risen to the maximum safe limit. With these principles observed, the reinforcement of deliberate measures by an unanticipated reversal in autonomous forces or in what the econometricians call predetermined variables, could hardly result in swings beyond manageable and tolerable limits.

It has been suggested by some that changes in fiscal measures, and the anticipation of such changes, will lower the average level of business activity by creating uncertainty adverse to business planning. This is a valid objection to frequent changes in some types of public measures, but its application to the measures discussed here seems to me to involve misconception of the nature of the stability which is favorable to effective business planning—one important element of which is stability of the market. The measures proposed here, if effective, would stabilize the aggregate market beyond any previous business experience; that stabilization should be a highly favorable development.

The barrier to effective use of public measures to stabilize economic activity consists no longer in any major degree, in lack of technical tools or deficiencies of economic analysis, but in lack of the necessary persuasions in the hearts and minds of the men who determine public action.

One step in the direction of surmounting that barrier is improvement in the machinery within the Federal Government for the development of economic programs.

Creation of the Council of Economic Advisors provides a body of professionally able personnel to coordinate economic policy planning in the Executive branch. That coordination will not however reach maximum effectiveness until a mechanism for better staff work among the executive departments—better integration of overall economic planning with specific economic and administrative planning—has been set up. Witness to the need is the impression given to the public, or at least to leading newspapers, of confusion within the Administration concerning the President's anti-inflation program of last month. Perhaps one desirable step would be establishment of the office of Secretary of the Cabinet, after the British precedent.

Creation of the Joint Committee on the Economic Report provides a foundation for integrated policy analysis by Congress. But no sturdy structure will be erected on that foundation until Congress is served by a much enlarged permanent technical staff. The Reorganization Act of 1946 provided a first step in this direction. Perhaps it is not going too far to say that Congress needs at its service the equivalent of a combined Council of Economic Advisors—Bureau of the Budget.

But improving Federal machinery is only one step. For the President and the members of Congress are not after all the men who determine public action. The basic need is the spread of understanding of these rather technical matters among the public and a wider group of its leaders, and specifically among the members of those social groups, and their leaders, whose conflicts of interest must be compromised if we are to achieve successful economic action in a democratic society. Professor Hart has thoughtful suggestions to offer concerning that problem. That spread of understanding is occurring: whether or not it will occur in adequate measure is in part the responsibility of the economic profession.

There are prophets who affirm that we will not take the necessary steps for economic stability until we have plunged into another major depression. If so, the necessary steps may be accompanied by — or replaced by — irrelevant social changes based on misconceptions of the problem, and on emotional urges arising out of the need to fix the blame for one's misery, to absolve oneself of a feeling of incompetence and failure, and to gain a feeling of security. How good or ill will be the resulting changes in our social system will then be in part in the laps of the gods.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Avalanche of news and forecasts, mostly mixed, will make market news in next few weeks. Expect more strength after first days of New Year.

* * *

In another few days or so you will read columns upon columns about what is ahead for us in 1948. Captains of industry, financial leaders, political big-whigs, in fact anybody who is in the public eye or has access to print, will break out in a rash of forecasts. Most of these will be a combination of viewing with alarm and pointing with pride, mixed in with observations about the Marshall Plan and a little saber rattling at those nasty Communists.

* * *

In between the more ponderous statements the market forecasters will shoot their comments (some I have already seen), which will vary between cautious optimism and wary pessimism. A lot of customers men will become partners; some partners will leave their firms.

* * *

The big problem facing us all, and I'm leaving the stock market alone for the time being, is inflation and what will be done to check it. The theories of how to stop it are as thick as the snow flakes we saw last Friday. They vary between price control and the constriction of credit at its source. I don't have any inside information, but I'll venture to say that we'll get a combination of both before the next quarter.

* * *

There's some hub-hub about the Dow Theory and whether or not it has outlived its usefulness. This disagreement isn't new. It springs up every time the market stays dull a long time. Trouble, it seems to me, is that the proponents of the classical theory regard it as a science becoming almost mechanical in its application. Actually stock market trading is an art and attempts to mechanize it have not yet succeeded. The true trader recognizes the psychological impact of the Dow Theory if for no other reason than so many people follow it. But he also takes into consideration other factors, few of which can be reduced to axioms. I'll venture to state that the Dow Theory will continue to be applied, and misapplied, long after the present controversy dies.

* * *

This would be the time for me to say what I expect of the market for the coming year. But what I expect and what I'll probably get will be entirely different. I've learned long ago not to look too far ahead. I've also learned that logic has little place in trading. Certainly it was logical to buy them a year ago because of the big earnings. A tally of the results, however, would have meant red ink. So I'll keep on looking ahead a week or so, and let others worry a year in advance.

* * *

Last week I wrote that the signs pointed to a minor setback to about 178, which has already been seen. It is possible stocks will stay around this 178 level for a few days, some stocks may even go lower, before starting up again. Up to this writing there have been no indications to change the previous mentioned belief.

* * *

You are still holding steels, oils and coppers. I suggest continuing doing so.

* * *

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Paul H. Aschkar with Fewel Co., Los Angeles

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Paul H. Aschkar has become associated with Fewel & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange. He was previously manager of the trading department of the local office of Carter H. Corbrey & Co. and prior thereto was with Franklin Wulff & Co.

Inflation and the Banking Position

(Continued from page 2)

ripartite warning was sounded. The Chairman of the Board of Governors of the Federal Reserve System quite obviously feels that inflation is caused by too much money and too little goods. And that the former was a hangover from the days of our wartime borrowing. But since more goods, the only real answer to the inflation threat, will be slow in coming, and since price control, rationing, etc., deal only with inflation effects rather than inflation causes, so the only thing left to do is to shrink the supply of money. Mr. Eccles was frank and outspoken before the Joint Committee of Congress which deals with the consideration of President Truman's Program for curbing inflation. Said he: "This is one of the most important statements the Board has ever made."

As one of a series of proposals to deal with the causes rather than the effects of inflationary pressure, Mr. Eccles stated before the Congressional joint committee that all commercial banks should be required as a temporary measure to hold some percentage of their demand and time deposits, besides the present legal reserves, in a special reserve in form of short-term government securities or cash, cash items, interbank balances or balances with Federal Reserve Banks. Mr. Eccles further proposed a legal limitation of such requirements to a maximum of 25% on demand deposit and 10% on time deposits. Administration of the plan, he suggested, should be placed into the hands of the Federal Open Market Committee which, as you know, consists of the seven members of the Board of Governors of the Federal Reserve System and five presidents of Federal Reserve Banks. This, Mr. Eccles felt, should remove "some of the misgivings of bankers."

Again, to anyone who kept up with the thinking of the Federal Reserve, Mr. Eccles' statement could not come as surprise. In the annual report of the Board of Governors (1945 report), it let up as trial balloon similar proposals. There it reads as follows: ". . . to require all commercial banks to hold a specified percentage of Treasury bills and certificates as secondary reserves against their net demand deposits. To aid banks in meeting this requirement, they should be permitted to hold vault cash or excess reserves in lieu of government securities." But in 1945, the Board also said on the same page: "A further possibility would be to grant additional power to the Board to raise reserve requirements, within some specified limit, against net demand deposits. If this authority were granted, banks should be permitted to count vault cash as reserves. To assure effective control, all commercial banks should be subject to the same reserve requirement."

On Nov. 25, Mr. Eccles rejected three other methods that had been suggested for restraining bank credit. (1) *Raising the discount rate*, he felt, then, would have an effect that was negligible, except for a possible psychological reaction. However, on Dec. 10, evidently Mr. Eccles decided it was better to agree with the Federal Advisory Council which had unanimously opposed his additional reserve plan, but to all intents and purposes seemed partial to the raising of the discount rate, and raise the discount rate. (2) Mr. Eccles also felt that *Suspension of Federal Reserve Purchase of Government Securities* would increase the interest rate on the public debt and it was "not only desirable, but essential" that the 2½% on long-term marketable government securities be maintained. (3) *Raising the legal reserve requirements of New York and Chicago banks* from 20% to 26% of their net demand deposits did not "in any way go to the heart of the problem" and would affect credit only in these two cities.

You will recall that Congress gave the Board of Governors under the 1935 Banking Act discretionary powers to alter the legal reserve requirements of the member banks by as much as 100% of the original requirements. This meant that, while reserves required may not be lowered, they may be raised from the 1917 level of 13%, 10%, and 7% on demand deposits, and 3% on time deposits, to 26%, 20%, and 14% on demand and 6% on time deposits. In the exercise of these powers, the Board may vary the legal reserve requirements for one classification of banks while leaving those for others unaltered, or it may order unequal changes among the three classes of banks.

Opposition to Special Reserve

The 12-member Federal Advisory Council blasted Mr. Eccles' proposal for these new special reserves. Mr. Eccles, in turn, called the council's blast as "unhappily characteristic of boom psychology." For one thing, the Council said its members had "most strongly objected" to a process of reasoning "singling out" bank loans as the cause of inflation and that, secondly, in the unanimous view of the Council the trouble lay almost altogether in government policies.

It is very interesting, if not instructive, to follow the almost continuous rift on major policy decisions between the Advisory Council and the Board over the last two decades. During the speculative boom in 1929, the Federal Reserve Board denied ten times requests of the New York Federal Reserve Bank to raise its discount rate. But the Council had been asking for such action since November of 1928. In 1931, two years prior to the Emergency Banking Act of 1933, the Council called for higher bank capital-deposit ratios, improvement in bank examinations and for a more comprehensive supervision by the Federal Reserve Banks over their member banks' portfolios. In 1933, it opposed the publication of the names of those borrowing from the RFC. And, above all, let it be said to the Council's credit that it opposed the weird economics of the late Professor Warren's gold-buying schemes. Furthermore, a few years later, the Council urged the reduction of bank excess reserves as early as in the fall of 1935. But it wasn't until almost a whole year later that the Board decided to act and raise legal reserve requirements.

The bankers of this country owe a great debt to Mr. Edward E. Brown, the President of the Federal Advisory Council. For he hit the nail on the head, twice in rapid succession. Mr. Brown said that his objection to the new Eccles' reserve plan was his belief that it would serve so to limit credit as to put an end to many bank loans for anti-inflationary production. Moreover, and this, Gentlemen, is the pay-off and the thesis of my story tonight: Mr. Brown declared that the proposal for additional legal reserves was a step toward the "socialization of credit."

If the banking profession in the United States has a dime's worth of vision, it will devote some serious thought to Mr. Brown's statement. Unfortunately, the term "reserve requirement," even in its most vicious form of "100% reserve" is such an apparently insipid, asexual term that not even the bankers get excited over it. That's why they are in definite danger of becoming victims of a Pearl Harbor some of these days. Why? To answer this question, let me briefly present the legal reserve position of banks.

As I have stated, the amendment of 1917 to the Federal Reserve Act—we need not go back further in our banking history—required that: For demand deposits, member banks located in central reserve cities were to keep 13% on reserve with their federal reserve banks; banks located in reserve cities, 10%; and other banks, the so-called country banks, 7%. Reserve for time deposits were placed at 3% for all member banks. Then in 1935, as I have indicated previously, the Board of Governors was given discretionary powers to raise these requirements up to 100%. As legal reserves stand today, the Board has done that with the exception of the legal reserves for New York and Chicago banks which stand at 20%.

Now then take these present legal reserves of 26%, 20%, and 14% against demand deposits and 6% against time deposits and add to these existing reserves: (1) a further increase in these reserve requirements as outlined in the Board's 1945 report and (2) Mr. Eccles' proposal for an additional required secondary reserve, possibly in the form of Treasury bills and certificates; this is additional 25% against demand deposits and another 10% against time deposits. What is this going to add up to? 50%, 60% or more percent legal reserve requirements. This, my trusting, unsuspecting inmates of the counting house, is the road to 100% reserves; the road to socialization of bank credit, as Banker Brown, the Chairman of the Federal Advisory Council, so rightly remarked.

The 100% Reserve System

Forgive me if I bore you with my story of what the 100% Reserve plan is, but you can't understand Mr. Brown's utterance unless you understand that innocuous little phrase. The plan, in short, as the name indicates, is a proposal to require commercial banks to maintain 100% reserves against their demand deposits. Thus the demand deposit operations of a bank would be completely segregated from all other bank operations. With a 100% reserve, this special demand deposit department would have no capacity to lend or invest. It would be simply a custodian of the depositors' money, having at all times a dollar of reserves against every dollar of demand deposit liabilities. The reserves could be kept entirely in currency in the vault, as balances with Federal Reserve banks, or as a combination of the two.

But, you might ask, who is going to do the lending and investing? Answer: Another department of the bank or other institutions. The loan and investment funds would be derived from the sale of capital stock, certificates of indebtedness, and, of course, the receipts of time deposits. Only a small reserve would be required against these time deposits. To affect the conversion to the 100% reserve plan, perhaps a new monetary authority would purchase government securities and other assets from the banks. The income lost by the demand deposit department of a bank would presumably be recouped through increased service charges.

I won't bore you with all the claims of the alleged advantages inherent in this plan. The point is that the time deposit departments would have available for lending only the actual savings of the public deposited with them, plus such additional sums of new money as the monetary authority might create by its monetary maneuvers. In other words, the 100% reserve plan means the end of the private banking system as a creator of credit and it reduces the banker to a government clerk doling out, retailing if you wish, the credit that the monetary authority permits him to have. Still more clearly put, private enterprise cannot survive under that sort of system. If that system is accepted, you have, in effect, severed the jugular vein of capitalism. Bankers had better heed the warning of Mr. Brown. For Mr. Eccles' additional reserves lead them right down the road to serfdom, with the hangman's noose at the end.

But it will take more on the part of bankers than to say "no" to Mr. Eccles' proposals. The advance guard of the 100% reservers have had already articles on 100% reserves in the "Congressional Record." At the first sign of any sharp recession, temporary as it may be, new recruits will join the rank of the 100% reservers. Make no mistake about that. But, as I have said, it will take more than saying "no." There is work to be done in our private banking business. And there isn't too much time left in which to do it.

Banks have far too long neglected their public relations program. They played an important part during the war. But while everybody knew Chrysler made tanks, the banks have never talked about their part. To this very day, the function and the contribution that the bank makes to the growth and happiness of the community is as familiar to the citizens and depositors as the interior of Mongolia. Moreover, bank employees, your contact men and women with the public, know usually next to nothing about the *total* picture presented by bank operations and the relationship of one bank to the banking system and the national economy. The latter statement goes almost 100% for bank directors, too. If you are as anxious as I am to maintain private business and its jugular vein of credit extended under the leadership of free private bankers, then you must agree with me that some action, and soon, must be taken along these lines. But there are other lines of action as regards our 14,602 commercial banks in this country.

Unfavorable Banking Structure

As the FDIC has pointed out in its last annual report, there are definitely unfavorable conditions in the banking structure today. Many a bank does still hold substandard assets and some insured banks have relatively large amounts of such assets. Also banks are as a rule not sufficiently protected against losses from defalcation. But, note that defalcations have been responsible for the difficulties of a large proportion of the banks requiring financial aid from the Federal Deposit Insurance Corporation. The FDIC report reads on this point as follows: "Bank assets have doubled in amount during the past five years and every bank should examine the adequacy of its fidelity insurance. Each bank should survey its present risk of loss, install proper internal controls and purchase insurance sufficient in amount to cover any probable loss." But the most unfavorable situation which has developed among banks in this country is a decline in the ratio of capital to assets. At the end of 1945, 78% of the assets of all insured banks consisted of cash and U. S. Government securities. During 1946 this ratio declined to 72% because the increase in loans was made possible by the banks disposing of government securities. This trend in taking over higher-risk assets has continued during 1947. Let's be frank, brutally frank. One of the chief reasons, if not the chief reason, for the existence of private banks is the service they render to their community by supplying the credit needed. To do this, banks must have ample capital to assume the risk inherent in such loans. As the FDIC points out: "Banks have been adding to their capital from retained earnings, but the growth has been much too slow in the light of the credit needs of the present time and the foreseeable needs of the future." Let me remind you at this point that it isn't the Marshall Plan that is putting the steam in the current boom, but it is private domestic investment. Gross private domestic investment is now running at an annual rate of $31 billion. The net foreign investment, the surplus of exports over imports, is only running at the rate of a little less than $8 billion. Professor Slichter at Harvard estimated the other day in an article in the N. Y. "Times" that private business needs about $50 billion of new capital investments. Think of that and think of the inevitable repercussions on your bank, big or little, that will follow such a private investment boom. Are you ready for it?

Or do you honestly think that your bank should sell new capital stock to the public to hasten the accumulation of capital commensurate with the added risks to which you will assume when you meet the needs of your community? Moreover, the remaining capital supplied by the RFC should be promptly replaced by capital furnished by individuals.

Again, let me call your attention to a sentence in the last annual report of FDIC. It reads: "No real test has occurred to show the demands which may be made upon the resources of the corporation in a severe or lengthy period of declining bank deposits, production and employment." Gentlemen, don't misunderstand me. I am not a Calamity Jane. But I do believe in facing facts, and right now the funds of the FDIC amounts to about 71/100 of 1% of total deposits of insured banks. Should I recite to you the record? Bank suspensions in 1920, 143; 1921, 461, 1922, 343; 1923, 623; 1924, 738; 1925, 579; 1926, 924; 1927, 636; 1928, 479; 1929, 628; 1930, 1,292; 1931, 2,213, or 10.48%; 1932, 1,416; 1933, 1,783, or 12.86%; lumping 1934-39, 291; 1940, 22; 1941, 8; 1942, 9; 1943, 4; 1944, 1; from then on, there were no bank suspensions. Let us not be lulled into a false security.

I sincerely believe that we have definitely solved many of our banking problems, but I equally believe that there must be more improvement, and that soon, along the lines to which I have referred. Again, there are other problems to be considered and problems that will arise, I feel sure, at the slightest provocation in the behavior of our economy.

Simplification of Bank Supervision

For example, I wonder, whether or not the time is not here for bankers to examine objectively the possibility for structural simplification of bank supervision. Regardless of the progress we have made, there still is today a lack of uniformity between member and non-member banks and there are jurisdictional conflicts between state banking supervisory authorities, FDIC, the Comptroller of the Currency and Federal Reserve Bank supervision. You will probably remember that the Banking Act of 1933 made membership in the Federal Reserve System mandatory for all non-member banks which wanted to remain insured with the FDIC after July 1, 1936. The Banking Act of 1935 changed this provision by requiring membership only for insured banks which might have deposits of $1,000,000 or more in the year 1941 or in subsequent years. This provision, too, was repealed in 1939 by the Congress. Even more severe proposals have been advanced, among them the proposal that every bank receiving demand deposits should operate under a charter issued by the Federal Government.

You might say at this point: "Unconstitutional." Well, I wouldn't agree with you on that point. For the courts and the Supreme Court would be almost sure to hold banking affected with a

national, rather than with a local or sectional, interest. After all, we have today nationwide check clearing: we are in the days of national monetary policies; and expansion of loans and investments in one district is almost sure to affect all other districts. And we all remember the days not so long ago when weakness in the banking system in one section of the country spread like brushfire in a dry August.

Many earnest students of finance have proposed that we give up the office of the Comptroller of the Currency. Surely his title, not only his office, is an anachronism. The old national bank notes are no longer issued. The place of currency has been taken by deposit banking. And what relatively little currency is needed is now supplied by the Federal Reserve banks as agents of the U. S. Government. I am sure, the Comptroller's duties could be easily absorbed by the Federal Reserve System and this change could be made without any disruption or confusion in customary bank operations. I also believe, and this belief is shared by many able students in the field of finance, that it would probably be a good idea and a logical step to take if we were to transfer all the functions of the FDIC to the Federal Reserve System. The examination departments of the Federal Reserve banks would simply extend their jurisdiction to all state banks, whether they would be members or non-members. Such a step, if objectively analyzed and considered, suggests itself also for another reason.

The safety of a bank is never a question of its legal reserves—short of 100% reserves, in which case we wouldn't have private banks anyhow. The safety of a bank is still a question of asset management, and that, in other words, is a question of the liquidity of your assets. Many, if not a majority of bank assets today do not possess true, natural liquidity, but rather possess liquidity only if they can be shifted on to some other holder. During a general incidence of liquidation, this shiftability of assets, so often confused with true liquidity, might be extremely difficult to effect. A strong central bank could accommodate, however, banks in need of cash. Frankly, I have often asked myself whether the little sign over the teller's window should not read "Insured Federal Reserve System" rather than "FDIC Insured." Surely this was and is true as long as the Federal Reserve protects the price of government securities by standing ready to take them over if offered by banks in larger quantities than the market can absorb.

Banks Not Responsible for Inflation

Aware of the fact that the mind can only endure as much as the seat can, I do not wish to prolong my recital. Gentlemen, I frankly can't see bank credit expansion as a cause of our unpleasant price trends. For the rise in bank credit grows out of the inflation itself—it is a result rather than a cause. Business needs more money to carry the higher-priced inventories, to pay higher-priced labor, higher transportation costs, and to finance expansion. The investment market is not very attractive to business right now. The stock market, hedged in by too many controls, remains relatively dormant, and bonds aren't selling any too good right now. Result: the banker is the No. 1 source of business funds. Of course, by meeting the needs of business, the banker adds to the money supply. So let us not be misled by a red herring—higher legal reserves point only toward one goal, the socialization of banks in effect though not in name. No matter what you may call the thing, it smells just as bad under one name as under another.

I repeat, bankers should not underestimate present trends. Just a few days ago, in the Australian Parliament, Government members stood in their seats and cheered when the banking bill providing for the taking over of private banking in Australia by the government, was voted through. There is much work to be done to maintain enterpreneurial freedom in this country by retaining the private bankers as the arbiter of economic destiny. Public relations, fidelity insurance, capital accounts, earning assets, the tangle of conflicting bank supervision—all deserve better scrutiny. Now that banks may average their bad-debt losses over a 20-year period in estimating tax-deductible reserves to be set up against future loan losses, there is no excuse for U. S. banks not to establish sizable reserve funds for stormy weather that some day will come—I am sure. Then, too, I belong to a group which lobbied unsuccessfully for a bill clipping the claws of group and chain banking. Federal laws do not permit interstate-wide branch banking; I think wisely so. There is thus no reason that the law should be evaded by taking recourse to bank holding companies or interstate control of banks by a clique. Depositors are entitled to know what kind of bank it is they are putting their money into.

It is a far cry today from the days of early 1933. The banks came back, regained public confidence, helped to finance the world's most expensive war, and are now helping to building the peace. But the days of closed bank doors have not been forgotten. It would not take much to bring a flood of public ill will against the banks and to usher in the legislation of the 100% reservers, should bank trouble develop. As an economist, I believe in two fundamental freedoms: One, freedom for the entrepreneur to hire labor and capital and produce whatever, however, wherever he wishes to produce. Two, freedom for the consumer to spend, foolishly or wisely, invest, or otherwise save his money. These two functions, a *sine qua non* in a free society, cannot be maintained without private banks and private credit extension. It is for this reason, gentlemen, that I beg of you to consider what I have said tonight seriously. If I can help you in any way in this our fight for freedom, you need but command me.

Free Enterprise and Planned Economy

(Continued from page 9)

five-year plan,' and finally a 'permanent long-range plan.'"

In an effort to clarify the role of government in our economy, Paul G. Hoffman has stated:[2]

"The most vital function of government is to establish conditions under which private enterprise can operate most effectively. It must foster competitive production and trade, and check monopoly power; it must conduct its own operations, including taxation, in a way that is conducive to the maintenance of a dynamic economy; it must maintain the integrity of the dollar and stability in the supply of money and credit."

Benjamin F. Fairless has pointed out that:[3]

"Within recent years one reads and hears at large the words of the apostles of a completely regulated economy, in which the valves of prosperity are to be unerringly adjusted by the economic planning of an appointive bureaucracy. Thereby the matter of who does what, and to what extent, comes within the province of governmental executive decree—and free enterprise and incentive fly out the window.

"Born to the same colors are those who proclaim that the capitalistic system is vicious and that profits are inherently evil. The profit motive is represented as the animating spirit of a special class of persons who, either singly or in groups, plan to enrich themselves unfairly at the expense of others. As the profits must come from sales, those who are mistreated, according to this doctrine, are the customers, many of whom are themselves engaged in the selling of something for which capital has been risked. Does the doctrine apply equally to the enterprising operator of a corner drug store, or bakery, or small coal mine, or other business? If so, is the farmer also guilty of this queer sort of sinning, in case he makes a cash profit over and above his bare requirements for subsistence?

"Reduced to these simple terms, the proposition looks absurd. . . . What testimony does American history bear upon the operation of the system of free enterprise in our national economy? Look about you. Where in the world is the standard of living so high, or opportunity so attractive? It has drawn immigrants from almost every region on the earth. There is not a similar rush to socialistic or communistic countries, even on the part of those amongst us who profess belief in such orders. The development of American industry and its products is the envy of every nation. Such are the results of a system in which the respective abilities of individuals have been given the opportunity to operate — to assume risks and reap commensurate rewards, to accept responsibility and achieve success, to work hard and produce in abundance without experiencing the withering hand of arbitrary dictation."

Let us quote yet another outstanding business leader, W. W. Aldrich:[4]

"The expanding functions of government in a free-enterprise economy need to be distinguished from the economic controls imposed in a totalitarian or in a planned or directed economy. In free enterprise, the area of private initiative and responsibility is still large. Rules are general and not intended to discriminate among individuals. Consumer preferences still determine the allocation of productive resources. Competitive profits continue to be the test of managerial efficiency and correct judgment in pricing. Economic resources flow to the channels reflecting the most intense market demand of consumers."

These brief quotations set forth clearly the issue between free enterprise and a planned economy. In even simpler language it comes down to this: Is it worth while for me to give up my right to do my own planning—give up my liberties—my freedom—for the promise of a full belly? That is all planning can and does promise and there is no guarantee of that. Will there be a sandwich in my lunch pail or will I find in it only a government report? The burden is clearly on those who wish to plan our lives for us individually and collectively to prove that we should sell our birthright to them for the promise of a mess of pottage.

Dr. Rufus Tucker has analyzed the dangers involved in government planning as follows:[5]

"Planned economy as outlined by its leading advocates is merely a modification of totalitarianism, phrased in language not so shocking to the ears of free men as the language of Communism and Fascism. In 1935 President Roosevelt publicly stated that fact when he said, 'In 34 months we have built up new instruments of public power. In the hands of a people's government this power is wholesome and proper, but in the hands of political puppets, of an economic autocracy, such power would provide shackles for the liberties of the people.' But what are the President's appointees if they are not political puppets, and how can the vast agglomeration of governmental bodies for the control and financing of all industry and agriculture be regarded as anything but an economic autocracy? Their funds are provided for them out of taxes or loans collected forcibly from the people. They have succeeded in many cases in destroying the power of the courts to review their decisions.

". . . Planning is universally admitted to require centralized direction. . . . Hence planning, even when competently and honestly carried out, is the antithesis of democracy, as we have in America understood and admired the term. **But experience shows that it has usually been either incompetent or dishonest."**

Dr. Tucker then points out that economic planning is not new but "was taken for granted during the most of recorded history." Scientific planning was carried on by the 18th century despots including George III. In important respects their planning and that of today "are essentially the same, and **where they differ the difference is often for the worse."**

It was the failure of planning in the 18th century that caused the rise of liberalism which sought to rid the people of government controls and to enlarge the liberties of the individual citizen. Yet, as Dr. Tucker states, "By a paradoxical process, the name 'liberal is now claimed by a group that is striving to narrow the liberties of the individual citizen and restore a system like that against which the original liberals revolted."

I submit to you that the self-proclaimed designation of social planners, fellow travelers, pink intellectuals, entrenched bureaucrats drunk on power, New Dealers, and advocates of the various "isms," as "liberals" is a travesty on justice. For, in the words of President Roosevelt, quoted above, with rare exception, now as in the past, they seek power in order to "provide shackles for the liberties of the people."

Let them speak! What do they say?

Professor Harold Laski, eminent socialist and planner, has pointed out that the suspension of the British constitution is "inevitable" to protect the Labor party in its efforts to transform the British economy.[6] The King suggested such action in his address from the throne, Oct. 22, 1947. "A loyal unity of thought" is demanded by Sidney and Beatrice Webb. Any expression of doubt or fear that the plan will not be successful is "an act of disloyalty, or even of treachery."[7] Suggested punishment of Winston Churchill for his critical utterances was urged in October by a member of the Labor Government. Even the inquisition can be "beneficial to science when it protects a rising class,' according to T. G. Crowther.[8] "In the Victorian age, when John Stuart Mill wrote his essay 'On Liberty,' such views as those held by Professor Laski, Mr. and Mrs. Webb and Mr. Crowther were called reactionary. Today they are called 'progressive' and 'liberal.' On the other hand, people who oppose the suspension of parliamentary government and of the freedom of speech and the press, and the establishment of inquisitions are scorned as 'reactionaries,' as 'economic royalists,' and as 'Fascists'."[9]

Mr. Henry Wallace finds it easy to call many who dare to differ with him "Fascists" although in his great wisdom he has a plan for each and all of us not only in this country but throughout the world. He also had a plan a few years ago for little pigs as he led them to their slaughter, while at the same time he plowed up corn, cotton and other crops, although the world was hungry, in order to create an economic scarcity, which he now denounces so vehemently.

Such persons may think of themselves as great liberals. Actually they are little would-be dictators who love power and authority over their fellow men. "But truth has its own way. . . . Events have proved the correctness of the prediction of the orthodox economists. . . . There are no other means . . . (to solve our problems) . . . than those recommended by the orthodox economists: a sound money policy, thrift in public expenditures, international cooperation for safeguarding durable peace, economic freedom. The remedies suggested by the unorthodox doctrinaires are futile. Their application **makes things worse, not better.** . . . The market system makes all men in their capacity as producers responsible to the consumer. . . . If the market is not allowed to steer the whole economic apparatus, the government must do it. . . . There is no middle way. . . . There is no other alternative to totalitarian slavery than liberty. There is no other planning for freedom and general welfare than to let the market system work."[10]

"No 'automatic' and 'anonymous' forces actuate the 'mechanism' of the market. The only factors directing the market and determining prices are purposive acts of men. . . . There are no mysterious mechanical forces. . . . The dilemma is not between automatic forces and planned action. It is between the democratic process of the market in which every individual has his share and the exclusive rule of a dictatorial body . . . what those calling themselves planners advocate is not the substitution of planned action for letting things go. It is the substitution of the planners' own plan for the plan of his fellow men. . . . The planner aims at one thing only: the exclusive absolute preeminence of his own plan. . . . Democracy is inextricably linked with capitalism. It cannot exist where there is planning."[11]

2 Statement before the Joint Committee on the Economic Report, June 25, 1947.

3 Commencement address at Bethany College June 8, 1947.

4 Address before the Eleventh Congress of the International Chamber of Commerce at Montreux, Switzerland, June 2, 1947, by W. W. Aldrich, President, International Chamber of Commerce.

5 Address by Rufus S. Tucker, "The Return to Enlightened Despotism," before the American Academy of Political and Social Science, March 30, 1945.

6 Laski, "Democracy in Crisis," pp. 87-88. Quoted in von Mises, "Planned Chaos," 1947, p. 30.

7 *Ibid.*, p. 31.

8 *Loc. cit.*

9 *Loc. cit.*

10 From address by Dr. Ludwig von Mises before the American Academy of Political and Social Science, March 30, 1945.

11 *Planned Chaos*, pp. 29, 30.

Erwin Steubner to Be Kidder, Peabody Partn'r

PHILADELPHIA, PA. — Erwin A. Steubner will be admitted to partnership in the New York Stock Exchange firm of Kidder, Peabody & Co. on Jan. 8. Mr. Steubner, who has been manager of the Statistical & Research Department of the firm's Philadelphia office, 123 South Broad Street, will continue to make his headquarters in that city.

Lessons of Experience In Fiscal Policy

(Continued from page 13)

"props" of prosperity are always temporary; a long prosperity is a period when new "props" can be pushed in under as the old ones come out. True, the 1946-47 prosperity has been abnormally inflationary on several counts. We started with an untested excess of liquidity. The price-level was in flux in 1946, and even in 1947 many of the forces we think of as creating a price-stabilizing "rigidity" were actively pushing prices up. Inventories (especially of coal) have been phenomenally low This made strikes cut deeper than usual, and gave labor unions a temporary gain in bargaining power which was bound to push prices up. But for all that, the experience should be a reminder that production has no way to go except down, there is a bias against measures that might push it down even though default on such measures is inflationary.

Need of Discipline Among Interest-Groups

(C) 1946-47 experience also stresses our dependence on discipline among our great interest-groups. I am skeptical about schemes for stabilizing the economy by getting business firms or labor unions or farmers to act contrary to their own interest within the existing framework of rules. But as a minimum, we need some willingness to accept rules—whether permanent or temporary—which limit the pursuit of advantage.

During the war, we had a **price-stabilization compromise.** Many labor unions did not like the "no-strike pledge," nor wage control. Many businessmen did not like price control, rationing, allocations, excess-profits taxes, high farm prices, or "union security." Many farmers did not like price control, gasoline rationing, subsidies, or the rise in the status of unions. But these evils, unacceptable singly, were given almost unanimous acceptance as a combination. For everybody saw that it was more important to get the nation's business down under a program which called on each group for sacrifices than to wrangle over who got what.

This compromise was shattered in the fall of 1945 by derationing and the repeal of the Excess Profits Tax. Excess Profits Tax repeal meant "cutting a melon" for business, and created a climate in which the labor union policy of massive wage increases and the farmers' half-political-half-speculative "strikes" against meat price control were inevitable. Maybe these union and farm policies were wicked; but the position of those who say so would be stronger if they bracketed in the wickedness of premature tax cuts

It is too easy to forget the need of compromise in this sense. Of course we have an established compromise on many of the needed "rules," and under more favorable conditions it may suffice to make prosperity non-inflationary. But it may not serve for this purpose, and it is certainly not good enough to make steady prosperity automatic. Plans which would have to be imposed by one group (whether by labor unions or by business) might as well be thrown out. In planning for stabilization it is genuine compromise we have to look for. We need combinations of measures which the groups they inconvenience will accept both because they can see public advantage in them and because they can see other groups accepting comparable inconveniences. Finding such combinations and getting acceptance for them is one of the chief tasks for national leadership — and one in which economists should have a big part.

The State of Trade and Industry

(Continued from page 5)

unexpected corner, according to "The Iron Age," national metal-working weekly. A fresh survey made by the magazine among steel customers shows that 84.3% say their relations with steel companies are "good," while only 5.1% answered in the negative.

The remainder, totaling 10.6%, were "indifferent" in their relationship with steel companies.

Those having no intention of changing their source of supply when things become easier amounted to 74.1%, while only 8% expect to change their source of supply. Some were still trying to make up their mind with 17.9% saying "maybe."

Though statisticians and some government officials have at times been worried about the size of steel inventories, steel customers continue to buy every available ton of steel. Furthermore, the shortage of steel and the lack of inventories, "The Iron Age" adds continues to cause a boom in the steel gray market even though the latter constitutes only about 5% of total steel shipments.

Proof of these contentions is found in answers to the question "Are your inventories above normal, normal or below normal?" A total of 52.8% of the industry's customers said their inventories were below normal, 41% thought they were about normal compared to present-day demand, while only 6.2% believed that their steel stocks were above normal.

The answers by steel buyers in "The Iron Age" special report are considered highly significant in view of the current demand from Administration sources for allocation controls. If the steel industry's customers don't know what kind of a job is being done in the production and distribution of steel then nobody does, the above trade authority concludes.

Part of the present drive to get on mill order books has been caused by some customers who fear that with even a voluntary allocation plan they will be left out in the cold. This feeling is expected to increase rather than diminish until the whole question of allocations has been definitely settled.

With several large pig iron producers having raised the price of pig iron this week $2 a ton and others expected to follow, steel customers are expected to again become more price conscious. There was this week still the possibility of higher steel prices if wages were to be advanced in April 1948—a possibility which is far from remote.

Then, too, scrap, a major worry with steel companies, started to move again this week with an average advance of 75 cents per ton in the Chicago district. No changes were made in Pittsburgh and Philadelphia, but because of the Chicago change, "The Iron Age" scrap composite advanced 25 cents a gross ton this week to $40 a gross ton.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 96.4% of capacity for the week beginning Dec. 29, 1947, and compares with 86.6% one week ago, 97.7% one month ago and 87.7% one year ago.

This week's operating rate is equivalent to 1,686,900 tons of steel ingots and castings as against 1,515,400 tons last week, 1,710,000 tons a month ago and 1,545,600 tons one year ago.

FREIGHT LOADINGS DECLINE FURTHER BY 2.6% BELOW PREVIOUS WEEK

Loadings for the week ended Dec. 20 totaled 832,130 cars, according to the Association of American Railroads. This was a decrease of 22,029 cars or 2.6% below the preceding week. They represent a decrease of 4,055 cars or 0.5% below the corresponding week in 1946 but an increase of 144,285 cars, or 21.0% above the same week in 1945.

ELECTRIC PRODUCTION AFFECTED BY CHRISTMAS HOLIDAYS

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 27, 1947 was 4,829,579,000 kwh., according to the Edison Electric Institute. This was 538,045,000 kwh. below the record high production figure of 5,367,624,000 kwh reached in the preceding week. In the week ended Dec. 28, 1946 output totaled 4,442,443 000 kwh., which was 498,010,000 kwh. lower than the figure reported for the week ended Dec. 21, 1946. The production for the Dec. 27. 1947 week was the lowest since the week ended Sept. 6, 1947 (which included the Labor Day holiday), when 4,720,659,000 kwh. were turned out.

AUTOMOBILE OUTPUT OFF ONE-THIRD IN CHRISTMAS HOLIDAY WEEK

Estimated output of cars and trucks last week in the United States and Canada was 78.964, about two-thirds of the record volume of 120,657 shown in revised figures for last week, according to Ward's Automotive Reports. The agency added that 4.993,325 units have been completed thus far this year, leaving only 6,675 vehicles to be assembled to accomplish the goal of 5,000,000 in 1947.

Output for last week, Ward's said, comprised 58,222 automobiles and 17.883 trucks in the United States, and 1.888 cars and 971 trucks in Canada. The total is 11,900 more than the figure for the similar week of last year and three times the production of 24,620 for the corresponding week of 1941.

BUSINESS FAILURES OFF SHARPLY IN HOLIDAY WEEK

Declining in the week ended with Christmas Day, commercial and industrial failures fell off to the lowest number in any week since the beginning of this year. Dun & Bradstreet, Inc., reports 38 concerns failing, less than half the 91 which occurred in the preceding week, but the same number as in the comparable week of 1946. Compared with the same week of prewar 1939, concerns failing remained low, accounting for only a fifth as many failures.

Nearly all of the week's failures, 34 out of 38, involved liabilities of $5,000 or more. Failing in this size group fell off from 77 a week ago and compared with 37 in the corresponding week of last year. Small failures under $5,000 were down sharply, numbering only four, but still exceeded the one failure occurring in this liability class a year ago.

Geographically, failures continued to be heaviest in the Middle Atlantic, Pacific, and East North Central States. Declines from the preceding week prevailed in nearly all areas. Compared with 1946, more businesses failed this year in most districts, with nearly all of the decline centered in the New England States where only two concerns failed this week against 10 in the corresponding week a year ago.

Commercial and industrial failures in November declined slightly to 313 from 323 in the previous month. After rising steadily during the first five months of the year, they declined in June. Since then the number has fluctuated mildly each month. In November they were about three times as numerous as in November, 1946.

FOOD PRICES RISE AFTER TWO-WEEK RECESSION

Food prices, after trending lower for two weeks, turned upward in the latest period. The Dun & Bradstreet wholesale food price index rose to $7.11 on Dec. 23, from $7.02 a week earlier. The latest figure represents a gain of 12.5% over the corresponding date a year ago when the index stood at $6.32.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

WHOLESALE COMMODITY PRICE INDEX AT NEW POSTWAR PEAK

Strength in grains, livestock and other foods pushed the general price level upward in the past week. The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., reached a new postwar high of 304.10 on Dec. 20 and closed at 302.30 on Dec. 23. The current figure compares with 246.34 on the corresponding date a year ago.

Grain markets were somewhat unsettled with prices moving irregularly over a fairly wide range.

Strength in corn largely reflected continued small country movement of the cereal to terminal markets and publication of the final official estimate of this year's corn crop.

The report indicated a total corn crop for 1947 of 2,401,000,000 bushels. This was 26% smaller than the 1946 record production of 3,250,000,000 bushels and the smallest yield since 1936.

Trading in wheat was fairly active with prices edging higher. The wheat crop for this year was placed at 1,365,000,000 bushels, a new all-time high.

The outlook for the new winter wheat crop was reported improved as the result of more favorable weather in the Southwest. Domestic flour business continued extremely dull with export trade at the moment at a standstill. Demand for lard was only moderate but prices turned upward on talk of larger Government purchases for export and improved commission house buying. Livestock markets were strong and higher. Hog marketings at principal western centers declined for the week but held above those for the same week last year.

Cotton prices moved irregularly last week with final quotations off about 40 points from a week ago. Weakness developed at mid-week as the result of selling induced by a slowing down of activity in textiles and uncertainties surrounding the domestic and international political situations. Other bearish influences included the belief that export trade would not be as large as hoped for and year-end selling for tax purposes.

Cotton gray goods markets were relatively quiet for the second consecutive week with increasing price resistance noted.

Year-end dullness continued to feature the Boston raw wool market with many of the larger buyers reported out of the market until after the holidays. Prices in foreign wool markets were reported decidedly firmer. Trading in foreign markets remained slow in anticipation of the longer holiday season observed there.

RETAIL AND WHOLESALE TRADE EXCEED LEVELS OF CORRESPONDING WEEK A YEAR AGO

Retail trade was brisk last week as consumers wound up their Christmas shopping trying to fill their last-minute needs. Retail volume was somewhat above that of the preceding week and well above the like week a year ago, according to Dun & Bradstreet. Inc. in its current review of trade.

Despite the gain in dollar volume consumer purchases measured in units generally varied little from those of 1946.

Lingerie, hosiery and other apparel items were very popular as gift purchases. Fancy dresses and suits sold well as the holiday approached. Heavy clothing of all types was in large demand but interest in furs remained somewhat desultory.

Men's haberdashery was steadily purchased, while suits, overcoats and sportswear sold well. Shoes, house slippers and lounging robes were also in large demand.

Many grocers reported the volume of food to be moderately above that of a year ago, but attributed a part of the gain to higher prices.

The supply of nearly all foods was plentiful with demand for fancy items, confectionery and baked goods showing a substantial increase. Canned and frozen foods were steadily purchased as was true of fresh fruits and vegetables. Holiday cheer in the form of high-priced liquors was eagerly sought by many shoppers.

A slight seasonal lull occurred in some wholesale lines in the week. Total volume was steady at the high level of the preceding week and remained well above that of the corresponding week a year ago. Retailers generally confined their purchasing to fill-in needs and continued to stress prompt deliveries. The continued difficulty in obtaining some types of goods restricted volume in those lines but the supply of most merchandise remained adequate.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 20, 1947, increased by 18% from the like period of last year. This compared with an increase of 10% in the preceding week. For the four weeks ended Dec. 20 1947, sales increased by 9% and for the year to date increased by 8%.

The greatest snowstorm in the history of New York on Friday last cut into retail trade for the week and thereby reduced what promised to be extremely sharp percentage gains.

Last minute Christmas shopping, together with an extra selling day would have made these gains over 1946 possible were it not for transportation difficulties coupled with early closing of stores as a result of the storm.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 20, 1947 increased 8% above the same period last year. This compared with an increase of 6% in the preceding week. For the four weeks ended Dec. 20, 1947, sales increased 4% and for the year to date rose by 9%.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Jan. 4	96.4	86.6	97.7	87.7
Equivalent to—					
Steel ingots and castings produced (net tons)	Jan. 4	1,686,900	1,515,400	1,710,000	1,545,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Dec. 20	5,284,489	5,252,739	5,275,300	4,707,850
Crude runs to stills—daily average (bbls.)	Dec. 20	5,246,000	5,104,000	5,229,000	4,783,000
Gasoline output (bbls.)	Dec. 20	16,006,000	15,705,000	16,138,000	15,144,000
Kerosine output (bbls.)	Dec. 20	2,291,000	2,485,000	2,192,000	1,930,000
Gas oil and distillate fuel oil output (bbls.)	Dec. 20	6,520,000	6,337,000	6,574,000	5,497,000
Residual fuel oil output (bbls.)	Dec. 20	8,642,000	8,580,000	8,447,000	8,383,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 20	87,056,000	87,608,000	84,777,000	88,665,000
Kerosine (bbls.) at	Dec. 20	16,866,000	18,127,000	21,218,000	17,980,000
Gas oil and distillate fuel oil (bbls.) at	Dec. 20	51,502,000	55,032,000	62,646,000	62,239,000
Residual fuel oil (bbls.) at	Dec. 20	52,113,000	53,318,000	56,774,000	53,773,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 20	832,130	854,159	902,672	836,18[illegible]
Revenue freight rec'd from connections (number of cars)	Dec. 20	722,498	729,416	733,139	709,65[illegible]
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Dec. 25	$63,608,000	$130,139,000	$116,802,000	$34,344,000
Private construction	Dec. 25	36,231,000	69,218,000	49,693,000	25,260,000
Public construction	Dec. 25	27,377,000	60,921,000	67,109,000	9,084,000
State and municipal	Dec. 25	18,837,000	32,424,000	55,680,000	8,027,000
Federal	Dec. 25	8,540,000	28,497,000	11,429,000	1,057,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 20	13,145,000	*13,566,000	13,300,000	13,634,000
Pennsylvania anthracite (tons)	Dec. 20	1,218,000	1,198,000	1,213,000	1,272,000
Beehive coke (tons)	Dec. 20	144,000	*140,900	138,400	122,100
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 20	575	570	395	532
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 27	4,829,579	5,367,624	4,983,439	4,442,443
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 25	38	91	72	38
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 23	3.18925c	3.18925c	3.18925c	2.75655c
Pig iron (per gross ton)	Dec. 23	$37.06	$37.06	$37.06	$30.14
Scrap steel (per gross ton)	Dec. 23	$39.75	$39.75	$40.58	$31.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 24	21.200c	21.200c	21.200c	19.275c
Export refinery at	Dec. 24	21.425c	21.425c	21.500c	19.550c
Straits tin (New York) at	Dec. 24	94.000c	80.000c	80.000c	70.000c
Lead (New York) at	Dec. 24	15.000c	15.000c	15.000c	12.550c
Lead (St. Louis) at	Dec. 24	14.800c	14.800c	14.800c	12.350c
Zinc (East St. Louis) at	Dec. 24	10.500c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 30	100.69	101.86	101.86	104.16
Average corporate	Dec. 30	109.97	110.88	111.81	116.80
Aaa	Dec. 30	114.85	116.22	116.61	121.25
Aa	Dec. 30	113.50	114.46	114.85	119.61
A	Dec. 30	108.88	109.97	111.81	116.80
Baa	Dec. 30	102.96	103.80	104.48	110.15
Railroad Group	Dec. 30	104.31	105.00	106.92	112.56
Public Utilities Group	Dec. 30	112.00	112.93	113.70	117.80
Industrials Group	Dec. 30	113.70	115.24	115.04	120.02
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 30	2.45	2.37	2.37	2.22
Average corporate	Dec. 30	3.17	3.12	3.07	2.81
Aaa	Dec. 30	2.91	2.84	2.82	2.59
Aa	Dec. 30	2.98	2.93	2.91	2.67
A	Dec. 30	3.23	3.17	3.07	2.81
Baa	Dec. 30	3.57	3.52	3.08	3.16
Railroad Group	Dec. 30	3.49	3.45	3.34	3.03
Public Utilities Group	Dec. 30	3.06	3.01	2.97	2.76
Industrials Group	Dec. 30	2.97	2.89	2.90	2.65
MOODY'S COMMODITY INDEX	Dec. 30	455.7	459.3	459.9	378.3
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Dec. 27	238.4	236.8	235.3	214.3
Fats and oils	Dec. 27	272.7	266.0	287.6	259.9
Farm products	Dec. 27	279.9	275.8	268.6	229.1
Cotton	Dec. 27	336.3	336.7	336.6	322.8
Grains	Dec. 27	304.9	312.7	311.8	198.0
Livestock	Dec. 27	272.6	263.6	252.1	225.9
Fuels	Dec. 27	198.2	198.2	198.2	157.6
Miscellaneous commodities	Dec. 27	180.2	179.2	179.4	157.0
Textiles	Dec. 27	219.7	226.2	223.1	216.3
Metals	Dec. 27	160.4	159.3	159.4	139.2
Building materials	Dec. 27	236.3	236.7	236.4	207.0
Chemicals and drugs	Dec. 27	156.4	156.4	157.1	152.9
Fertilizer materials	Dec. 27	137.5	137.5	136.8	124.0
Fertilizers	Dec. 27	141.8	*141.8	140.6	129.7
Farm machinery	Dec. 27	134.5	129.3	129.3	120.8
All groups combined	Dec. 27	221.2	220.0	218.1	189.9
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 20	157,585	162,012	165,882	144,083
Production (tons)	Dec. 20	183,641	183,345	182,964	172,275
Percentage of activity	Dec. 20	100	100	102	102
Unfilled orders (tons) at	Dec. 20	416,851	444,685	418,582	543,675
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Dec. 26	149.9	150.1	151.0	150.3
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Dec. 20	162.5	161.4	159.2	139.8
Farm products	Dec. 20	196.9	196.2	188.6	170.7
Foods	Dec. 20	178.2	179.0	178.8	159.5
Hides and leather products	Dec. 20	204.4	204.9	200.4	170.9
Textile products	Dec. 20	146.9	146.3	144.0	132.8
Fuel and lighting materials	Dec. 20	126.2	120.2	118.7	96.9
Metal and metal products	Dec. 20	151.6	151.5	151.3	133.3
Building materials	Dec. 20	189.1	188.4	186.1	151.9
Chemicals and allied products	Dec. 20	132.9	135.1	136.5	125.6
Housefurnishings goods	Dec. 20	135.3	135.2	134.7	120.5
Miscellaneous commodities	Dec. 20	120.5	119.8	118.1	108.1
Special groups—					
Raw materials	Dec. 20	183.4	180.9	176.7	155.5
Semi-manufactured articles	Dec. 20	156.9	157.0	156.1	134.4
Manufactured products	Dec. 20	154.4	153.7	152.2	134.2
All commodities other than farm products	Dec. 20	154.9	153.7	152.7	133.0
All commodities other than farm products and foods	Dec. 20	145.4	143.5	142.0	123.4

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN PETROLEUM INSTITUTE—Month of September:			
Total domestic production (bbls. of 42 gallons each)	168,626,000	171,619,000	153,282,000
Domestic crude oil output (bbls.)	157,530,000	160,365,000	143,708,000
Natural gasoline output (bbls.)	11,046,000	11,204,000	9,424,000
Benzol output (bbls.)	50,000	50,000	150,000
Crude oil imports (bbls.)	8,656,000	8,242,000	7,508,000
Refined products imports (bbls.)	3,902,000	3,824,000	4,494,000
Indicated consumption—domestic and export (bbls.)	178,521,000	172,913,000	151,308,000
Increase—all stocks (bbls.)	2,665,000	10,772,000	13,976,000
AMERICAN TRUCKING ASSOCIATION—Month of October:			
Number of motor carriers reporting	256	256	256
Volume of freight transported (tons)	2,731,407	2,407,236	2,300,977
AMERICAN ZINC INSTITUTE, INC.—Month of November:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	69,682	71,745	66,873
Shipments (tons of 2,000 lbs.)	79,789	**129,046	91,429
Stock at end of period (tons)	69,166	*79,273	195,828
Unfilled orders at end of period (tons)	43,250	*35,013	49,317
BANK DEBITS—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Month of November (in thousands)	$92,921,000	$105,320,000	$86,645,000
CASH DIVIDENDS — PUBLICLY REPORTED BY U. S. CORPORATIONS—U. S. DEPT. OF COMMERCE—Month of November	$167,300,000	------	$160,500,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—			
As of November 28	$287,000,000	$283,000,000	$227,000,000
CONSUMER CREDIT OUTSTANDING, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Estimated short-term credit in millions as of October 31:			
Total consumer credit	$12,050	$11,671	$9,022
Instalment sale credit—			
Automobile	1,050	1,004	466
Other	1,324	1,253	735
Instalment loans	3,080	3,027	2,197
Charge accounts	3,035	2,864	2,621
Single-payment loans	2,646	2,606	2,082
COPPER INSTITUTE—For month of Nov.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	71,861	*76,300	73,024
Refined (tons of 2,000 lbs.)	97,525	*108,277	75,066
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	106,232	*112,310	129,206
Refined copper stocks at end of period (tons of 2,000 lbs.)	66,622	74,507	90,896
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES—			
Lint—Consumed Month of November	759,498	826,216	878,025
In consuming establishment as of Nov. 30	1,858,676	1,479,136	2,118,065
In public storage as of Nov. 30	5,360,906	5,101,358	6,208,001
Linters—Consumed Month of November	98,948	103,116	82,434
In consuming establishments as of Nov. 30	176,527	142,817	202,951
In public storage as of Nov. 30	72,833	67,052	59,248
Cotton spindles active as of Nov. 30	21,432,000	21,563,000	21,525,000
COTTON GINNING (DEPT. OF COMMERCE)—Prior to December 13:			
Running bales	10,596,350	10,056,347	7,727,523
COTTON SPINNING (DEPT. OF COMMERCE—			
Spinning spindles in place on Nov. 30	23,797,000	23,889,000	------
Spinning spindles active on Nov. 30	21,432,000	21,563,000	21,524,396
Active spindle hours, November	9,530,000,000	10,802,000,000	9,499,110,593
Average spindle hours per spindle in place, November	400	452	397
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE =100—Month of November:			
Sales (average monthly), unadjusted	304	*267	295
Sales (average daily), unadjusted	323	*253	301
Sales (average daily), seasonally adjusted	248	223	231
Stocks, unadjusted as of Nov. 30	263	253	247
Stocks seasonally adjusted as of Nov. 30	234	224	*226
MONEY IN CIRCULATION—TREAS. DEPT.—As of October 31:	$28,551,870,056	$28,567,322,694	$28,600,120,086
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Nov.:			
Industrials (125)	5.4	5.1	4.4
Railroads (25)	7.2	7.0	6.9
Utilities (25)	5.5	5.2	4.8
Banks (15)	4.7	4.5	4.0
Insurance (10)	3.5	3.5	3.6
Average yield (200)	5.4	5.1	4.6
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS ASSOCIATION) — Month of October:			
Total number of vehicles	436,001	*420,270	391,727
Number of passenger cars	315,969	*307,942	283,586
Number of motor trucks	118,365	*110,720	107,166
Number of motor coaches	1,667	*1,608	975
NEW CAPITAL ISSUES IN GREAT BRITAIN—			
Midland Bank, Ltd.—Month of Nov.	£8,837,000	£3,942,000	£9,063,000
NON-FARM REAL ESTATE FORECLOSURES—FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION—INDEX FOR ESTIMATE AS ADJUSTED (1935-39=100)—			
Month of September	8.2	8.5	7.0
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments Month of October:			
Aluminum (thousands of pounds)	40,532	35,877	43,007
Copper (thousands of pounds)	92,119	83,158	106,475
Magnesium (thousands of pounds)	616	518	986
Zinc (thousands of pounds)	38,612	32,727	42,371
Lead die (thousands of pounds)	1,393	1,241	1,260
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)—Month of October:			
Production (M sq. ft. 3/8-in. equivalent)	170,325	146,985	149,600
Shipments and consumption (M sq. ft., 3/8-in. equivalent)	161,648	146,701	149,583
Stocks (M sq. ft., 3/8-in. equivalent) at end of month	43,918	38,086	34,959
Consumption of logs (M ft., log scale)	74,237	64,241	66,387
Log stocks (M ft., log scale) at Oct. 31	219,494	221,904	179,481
TRAILER COACHES—HOUSING, TYPES ONLY (DEPT. OF COMMERCE)—Month of Oct.:			
Month of October:			
Production (number of units)	7,827	6,986	5,953
Shipments (number of units)	7,707	6,925	5,849
Shipments (value of)	$13,236,706	$11,634,920	$9,779,385

Observations

(Continued from page 5)

to over- or under-state the stock's true value. To allow for them as a buyer, we will give curselves *a margin of additional safety* by making an arbitrary subtraction from our above-calculated gross price.

In our Montgomery Ward example such deduction might well be 15%, taking into account the favorable factors of a net quick liquidating value of $50 per share as an offset to vulnerability factors.

The exact size of this safety-margin deduction to be insisted on as a prerequisite to an actual purchase would be importantly governed by our portfolio's need for the category of security in which the issue falls.

The Incidence of Individual Income Taxation

There is one important variable factor which must be recognized as importantly affecting our calculations of the above-described amortization-fund; namely, the incidence of the income on dividends received. Irrespective of whether its impact in particular cases is greater or smaller than would be the capital gains tax of 25% on people emphasizing market appreciation, it does reduce the segment of the dividends garnered for amortization of our capital invested.

An offset to the income tax levy (whose degree is of course correlated with the respective tax bracket of the investor) is provided by the security-holder's possession of the growing amortization fund in advance of our designated "maturity date" and by the return gainable thereon.

A Cyclical Earner

In considering an investment in an established enterprise producing a basic commodity, as oil or copper, we would concentrate on averaging past earnings throughout boom-and-bust.

Looking at the Kennecott Copper Co. as a business property, and not being conscious of the current market price of its stock: we find that the per share earnings (before depletion) during the 1936-'46 era ranged between $2.16 and $4.60, averaging $3.45; with 1947 estimated earnings of $8-$9 being regarded as highly abnormal and non-recurring.

We also see a "dream" balance sheet, partially necessary because of the wasting assets, with cash of $174 million, total current assets of $240 million, with total liabilities of only $30 million; belonging entirely to the 10.8 million shares of common stock.

With an assumed war-raised commodity price level, let us estimate average future earnings at $4 per share. The dividend return we then could estimate at $3 per share, which, after the rental charge for our capital, we can use for amortizing our entire cost over a 20-year period. With a money-rental value of 2½% this would capitalize our expected return at a present price of about $40 per share.

The margin of safety for imponderables and errors in our various appraisal factors (which we have not detailed because of space considerations) we might, because of the net quick liquidating value of $20 per share, limit to a deduction of 10%.

This would lead us to consider $36 an advantageous long-term buying price for Kennecott, at which level we would be willing to "dig in" for return and conservation of capital; and not be in the least discomfited by future market fluctuations indicating book loss of capital.

Stable Earners

To the extent that the public engages in "quantitative" security analysis at all, American Telephone stock is so used. But even here the present dividend is overemphasized to the exclusion of earnings and hence of future return from the property.

We find that from 1927 to the present the earnings per share, which were $11.66 in the earlier year, have fluctuated between a low of $6.52 in 1934 and a high of $12.59 in 1929, ending the period with $9.31 in 1946. The average earnings have been $9.10 per share.

The net working capital has grown from $138 million to $188 million in 1946, but we see that this is counterbalanced by a simultaneous doubling of the funded debt; with a practically stationary book value around $130 per common share.

As a prospective buyer of the stock, we might doubt the chances for the company's indefinite life, and only feel comfortable if, as we did with Kennecott, we could write off our entire investment over 20 years.

With an evidenced earnings ceiling of about $9 we would not assume an average dividend of above $8 per share, even allowing for apparently special (although not quite clear) factors now permitting an unusually high proportion of dividend disbursement.

Thus capitalizing an $8 average dividend would set a gross fair market cost of about $107 per share for the stock, and a "net" price after our safety deduction for individual income tax and other elements, of something like $95 per share.

While such a figure might be termed unrealistic in view of the current stock market price (which is surely keyed to the long-standing dividend), the writer positively would stick to his guns with confidence, and be disinterested at any other price range.

Not Scientific Appraising

The above reflections are of course not to be conceived of as scientific *appraisal* technique, but as an approach to the worth of securities regarded as shares in a business property likely to give an advantageous return on the capital risked.

And it is only a roughly and superficially stated summary intended to clarify the practicality of our basic approach. There are realized omissions of recognizable factors entering the calculations, such as corporate depreciation policies; necessary refinements of our calculations of our amortization fund arising from accelerated possession of the assumed amortization funds; the respective personal income tax incidence and a host of variables. They make all the more important the margin of safety deduction from our gross goodvalue estimate.

In any event the effect of those imponderables is less decisive than are the previously-demonstrated uncertainties which stand in the way of forecasting fluctuations in the price of individual securities or of "the market" regarded as an entity.

Can American Dollars Save Europe from Communism?

(Continued from page 17)

stands at least some chance of succeeding.

Another bottleneck to European recovery is the foreign exchange situation. The legal exchange rates in many countries are 50% or more below the actual buying power of the local currencies as reflected in the free (or black market) exchange rate or that in Switzerland, which has a free exchange market. This means the foreign importer must pay double or more the true value of any goods he buys, in terms of his own currency, and that prices most goods out of the market. This at a time when it is urgently necessary for Europe to build up its exports to pay for food and raw material imports. Shouldn't we insist on an immediate correction of that situation as a condition to our further assistance?

Even if these and other conditions of a similar nature, all aimed at achieving the increase in domestic European production which is essential to the success of any aid program, are met, there is always the danger that the communists in these countries, through their control of, or influence in, the labor unions, will so sabotage production as to completely defeat the program. That is a chance we may have to take. The recent developments in France are encouraging, but our future course should be determined in part by how effectively the governments we are to assist move to meet this very serious problem.

There is little question about the program for interim aid to France, Italy and Austria. The failure of European harvests is a hard fact, and the aid is necessary to keep hunger and cold from reaching proportions in Europe which would endanger our own troops there and our security. The bill already has passed both houses and the differences will be ironed out speedily in conference.

Questions Items in Interim Aid

Unfortunately, the urgency of the need did not permit a thorough examination of the estimates for the interim aid. Whether the $597,000,000 total approved by the Senate is the proper one or not, I doubt whether any member of Congress knows. Personally, I voted for some reductions in the Senate, first because I was very doubtful whether we can supply the volume of grains scheduled for export and, second, because the justification for the amounts proposed was inadequate.

Great emphasis has been laid on the "thorough screening" given the requests of France, Italy and Austria for interim aid by the State Department. Under-Secretary Lovatt testified, with some pride, that the request by France had been reduced $131,000,000, from $458,000,000 to $328,000,000. But then he went on to explain that the reduction included an item of $80,000,000 for balance of payment debts between France and Belgium; another $20,000,000 for an old debt to England which the French were going to pay in dollars although they held $200,000,000 of blocked sterling and, finally, an item of $15,000,000 which also was an old debt. These three items, which are pure paper padding and had nothing to do with urgent needs for food and fuel, total $115,000,000 of the $131,000,000 cut out of the French request, making it apparent that her request for actual commodities could not have been reduced at all materially. Since applicants for either gifts or loans seldom pare their requests to the bone, I believe we are justified in questioning whether the tate Department's "screening" of these requests was too vigorous or careful.

On the other question, America's ability to spare the 570,000,000 bushels of grain exports at which the Administration is aiming without very dangerous repercussions on our own economy, the testimony before the Appropriations Committee raised grave doubts in my mind. The five major grains—wheat, corn, oats, barley and rye—are tied together in our economy, being to some extent interchangeable as human food or livestock feed. This year our total production of these five grains is 5,395,000,000 bushels, which is 703,000,000 bushels less than our total domestic consumption and export last year of 6,098,000,000 bushels. Expert witness before our committee were very doubtful, in view of these facts, whether we could export the 500,000,000 bushels of wheat planned by the Administration without driving the price of wheat up to $3.50 or $4 a bushel and leaving us with a dangerously low carryover.

Aspects of Foreign Policy

There are many other aspects of this program which need a thorough study and discussion. But I would like now to turn to the whole field of American foreign policy.

For seven years in the Senate I have supported consistently every major foreign policy proposal of the National Administration. I have done so in the face of Administration justifications which were often weak and vacillating and which failed to give Congress or the people a full and complete report of the facts. In the past year, my support has been tempered by growing doubts as to the wisdom of some programs.

I am convinced that it is time now for a thorough and critical discussion of United States foreign policy, both its programs and their administration.

I have reached that conclusion because it is glaringly apparent that our foreign policy, judged by the acid test of results, has failed badly.

Two years ago, the United States stood at an all-time peak, probably unprecedented in history, of international prestige and power. We had just won, virtually single-handed, a great war in the Pacific. Our military power was the major factor in winning another great war in Europe.

Out of the flood of production from our farms, mines and factories we had furnished to our allies and friends in the war over $50 billion of lend-lease supplies only a fraction of which was offset by reverse lend-lease.

All the peoples of the world were tremendously impressed by the military power we had mobilized for the war and were even more impressed by our almost miraculous productive capacity. Peoples and governments were convinced also of our good intentions, the fact that we had no desire either to exploit or enslave them. Whenever in history, for instance, had a great world power given away $50 billion worth of supplies and exacted no commitments or even promises to repay in return?

It would appear, looking back, that the United States with a wise and foresighted foreign policy should have been able to obtain in the world very close to whatever international system we desired; particularly so, since what we desired and what must always be the fundamental objective of our foreign policy, is an ever-expanding area in the world where individual men and women are free to worship, think and speak as they please, to choose their own governments, and to labor at the occupations of their choice and enjoy the fruits of their toil. That objective surely is one which all people who have had even a distant glimpse of the great benefits of freedom must share.

Yet what has happened? In the two years since V-J Day, far from moving in the direction our foreign policy sought, the world has moved the other way. Millions of people whom we fought to free live under communist dictatorship and the rest of Europe and Asia is torn by civil strife.

American military power, while still tremendous potentially, is much smaller in actual combat strength. Our prestige with the peoples of the world has deteriorated even more. The editorials in European publications sound shockingly like those of 20 years ago, when they were calling us "Uncle Shylock." This time the criticism is not because we are attempting to collect what is owed us. We have been too gentlemanly even to suggest repayment. This time the criticism is because we are not willing, without debate, to give Europe a black check underwriting its economy for the next four or five years.

Finally, our shrinking free world is facing a great aggressor power, Communist Russia, whose dictatorship is as cruel and ruthless as any the Nazis ever imposed and whose aggressions bear a terrifying similarity to those in the late 'thirties which heralded the Axis attempt to conquer the world. The main difference is that Russia, in the communist parties tolerated in free nations, has a fifth column infintely more effective than any the Nazis ever had.

The deterioration in our international position in two years is almost unbelievable. Yet in those two years, every foreign policy proposal of this National Administration has been approved by Congress.

We ratified the United Nations charter, with only two dissenting votes in the Senate. Yet we are continually on the defensive in that great world forum, answering the ridiculous war-mongering charges of Russian dictators who speak fresh from their armed subjugation of Eastern Europe in violation of the Atlantic Charter and their other agreements.

Congress approved the Bretton Woods agreements establishing an International Monetary Fund and the World Bank. One was supposed, we were told, to stabilize currency exchange rates and the other to finance reconstruction projects. Fictitious exchange rates still are one of the bottlenecks to European recovery today, and there would be no need to discuss a Marshall Plan if the World Bank were functioning as promised.

Pending the operation of the Bank and Fund, the United Nations Relief and Rehabilitation Administration was set up to do the relief job, and Congress, at the Administration's request, appropriated $3.7 billion to it. Members of our Senate Appropriations Committee found $75,000,000 worth of UNRRA supplies, mostly tractors and farm machinery made in America, rusting in an open-air depot at Athens this summer. UNRRA was not a very happy venture either.

Recognizing the importance of British recovery to our hopes for the world, Congress voted the $4.4 billion British loan. It is already exhausted, with none of the purposes promised for it achieved. In fact, Britain is in worse straits economically than before the loan was made.

In the 1947 session, Congress approved the $400,000,000 Greek-Turkish aid program, voted another $332,000,000 for relief purposes in Europe and Asia, to say nothing of $600,000,000, now raised to $1.090 billion for relief in occupied areas during this fiscal year. Relief in occupied areas alone will have cost us $2.625 billion by July, 1948. In addition, hundreds of millions have been loaned by the Import-Export Bank, whose

lending authority was increased $2.7 billion in July, 1945, for that purpose.

Foreign Aid Without Objectives Attained

In all, our loans and gifts in Europe have totaled more than $12 billion in two years, plus another two or three billions in Asia.

What has been the result of all this expenditure of American resources? The realization of our objective, a free world, appears further away than ever, and 16 nations in Europe have presented to us a bill for $22 billion more "to save Europe from communism."

I grant you there are extenuating circumstances in the record. There is no question but that serious blunders were made at Yalta and Potsdam, blunders which are still blocking tragically our hopes for peace and stability in the world. They were made at a time when few of us realized that the aims and strategy of Communist Russia were just as repugnant to free peoples and the Atlantic Charter as were those of the Nazis. Probably our leaders were in a position to have known better, but there is little to be gained by trying to assess the blame for past errors.

Then too, it is unfortunate, to say the least, that at a period when strong and consistent administration of our foreign policy was all-important to America, we have changed horses in that administration three times in the middle of the stream. Our State Department hardly has had time to adjust to one set of leaders before it had a completely new set. But that also, we may hope, is water over the dam.

I agree that hindsight is always easier than foresight. The big question is what do we do from here on. But I do insist that in view of this Administration's almost 100% record of erroneous predictions and failure to achieve promised results in foreign policy, its current proposal to commit the resources of America to a European recovery program to the tune of sixteen to twenty billion dollars over four years must be given the most careful and searching scrutiny.

There are many other urgent questions which cry out for full and honest answers. Why, for instance, shouldn't the United States at least try to regain the initiative in the United Nations? Why must we always seem to be on the defensive, apologetic about our free, capitalist economy? If we think it is the best yet devised, and I do, let's say so a little more vigorously.

We are still scupulously observing the Yalta and Potsdam agreements, even to the point of dismantling and shipping German war plants into Russia, although for two years the Russians have violated every major commitment of those agreements. How much longer do we have to wait before telling the Russians that they themselves have nullified those agreements by their repeated violations and that we are repudiating the agreements and their blunders?

I have never heard of a football game or a hot war being won by a good defense and nothing else. I doubt whether a cold war can be won by a good defense and nothing else. Individual freedom, both political and economic, is still the most powerful and dynamic idea in the world and we in America should be its most vigorous exponents. We have let ourselves be pushed around for two years on the defensive and the results are not happy. Let's try a little offensive strategy for a change.

An Electric Utility Forecast

(Continued from page 9)

good quality of its securities, incorporated a purchase fund on its new preferred stock issue. The Central Power & Light Company, a good Texas company, on the other hand, which recently received no bids for its preferred stock, provided no sinking fund and undoubtedly this will be one of the considerations given to any revision of that company's program.

Indications Are Markets Exist for Common Stocks

Unless such modifications are made in future issues of this type, and unless greater use is made of convertible obligations and convertible preferred stocks, the utility industry may encounter considerable difficulty in raising the equity money necessary to supply the cushion for the large amount of bonds that will have to be issued in the next few years.

That there is a market for common stocks, however, has been pretty clearly indicated by the experience in 1947. To date, over $86 million of new equity money has been raised by the utility industry through sale to the public of additional common stock, and if capital contributions by holding companies are included, the total is in excess of $100 million.

All told, we estimate that the industry in 1947 will have raised in the neighborhood of $550 million of new money through public flotation of securities. In addition, the industry has raised a considerable amount of new money through bank credit arrangements which will later have to be funded with permanent capital. Of the $550 million, about $350 million represented sale of bonds, close to $100 million from the sale of preferred stock, and slightly under $100 million from the sale of common stock.

New common stock money in the next few years should require the raising of between $150 million and $200 million a year with preferred stock financing of about the same amount likely to be required. Bond financing, on the other hand, should run from two to three times the size of that type of financing during 1947. While these are rough estimates, they do assume some significance in relation to what was done in 1946, when out of a total of $1,082,000,000 of new security issues sold by the industry, only $172 million represented new capital and the balance refunding.

The total of utility financing in 1947 again has exceeded $1 billion, but in this instance close to one half the total represented the raising of new money through public flotation and is the largest amount of new money financing to have been undertaken in the past 15 years. Indicative perhaps of the market's ability to absorb common stock financing is the fact that during 1947 nearly $200 million was raised to finance consummation of holding company liquidation or over twice the money raised through common stock to help finance construction.

In spite of rapidly rising costs of operation, the electric utility industry has maintained its earning power on a relatively even keel throughout 1947, and present indications are that net income for the industry will be almost identical with results reported in 1946. Revenues in 1947 have shown an unusually good rate of increase, and are up about 11% over 1946. This is about twice the normal rate of increase experienced by the industry over the decade from 1937 to 1946.

Favorable Growth Will Overcome Cost Hikes

Present indications are that a favorable rate of growth will be recorded in 1948, and will again help to overcome the effects of further rises in wages and fuel costs which are anticipated next year. In addition, however, a substantial amount of new generating capacity has been put on the lines during 1947, and an increasingly large amount is expected to be installed in 1948 and 1949. The benefits from this new capacity will be substantial, and will enable many systems to replace high cost kilowatt hours with much lower cost kilowatt hours produced by the new and more efficient units. Assuming the continuation of generally favorable business conditions, operating earnings of the industry should be maintained in 1948 and perhaps improved somewhat, with a good increase possible for 1949, provided the present inflationary spiral has been arrested by that time.

However, this does not mean per share earnings on utility operating company common stocks will show increases. In fact, the effect of financing through common stock may result in some dilution of present share earnings. Present earnings now reflect an unusually high rate of utilization of plant and just to restore adequate reserves of generating capacity will require large capital investment. The greatest dilution, however, will occur in the common equities of those companies which have relatively high indebtedness at the present time. It would seem, however, that public utility operating company common stocks which in many instances now afford yields of 7% or more, are discounting to a very liberal degree various factors facing the industry at this time.

Budget and Tax Adjustments for Prosperity and Depression

(Continued from page 17)

diction and delays of adjustment will render cyclical adaptations imperfect. Conditions may arise, for instance, where the planning of public expenditures can not be conducted realistically on the basis of full employment assumption since the opportunity cost of public utilization of resources may be merely unemployment. But granting these imperfections, our model remains useful in demonstrating that there is no conflict, as an inherent matter of economic principle, between the objectives of compensatory finance and the objectives of optimum allocation of resources.

Given a fairly high initial level of tax rates, there is no inevitable link beetween the idea of compensatory policy and a "large" or "small" budget philosophy. If we wish to check inflation without reducing public expenditures, we may usually do so by raising tax rates. If we wish to check deflation without raising public expenditures, we may do so by lowering tax rates. With a $30 or $40 billion budget, the scope for tax reduction is likely to be quite adequate. Our preferences regarding the desirable level of public expenditures, therefore, should not be confused with our attitudes towards the use of compensatory policy.

(2) Compensatory policy requires changes in the level of public expenditures and/or tax yields which will meet the needs of the economic situation. In part such movements result automatically through the mechanism of "built-in budget flexibility". But largely they require deliberate action.

The mechanism of built-in flexibility is this: If national income changes, the tax base and hence the yield derived from a given set of rates varies in the same direction. Moreover, there are certain public expenditure items, unemployment insurance in particular, which vary inversely with income. As a result, automatic and compensatory changes in surplus and deficit occur whenever income changes and thereby fluctuations in income are cushioned. To the extent that such reactions do occur and that the initial fluctuation is from a high employment level, they are to the good.[3] But what are the magnitudes involved?

The ratio of tax yield to national income, which is a first determinant of built-in flexibility is considerably higher now than it was before the war. Yet, it is still relatively small and will decline in future years. The income elasticity of the average tax dollar, which is a second determinant, now stands at about 1.5. It has been raised somewhat above the pre-war level by increased reliance on progressive taxation and the corporation income tax, but it can not be raised very much further; prospective tax reforms, on the contrary are likely to work in the opposite direction. The income elasticity of the average expenditure dollar, finally, may now be lower than in the thirties. On the whole, built-in flexibility is more important in the current setting than it was before the war, but its importance should not be overrated.

The automatic increase in budget surplus during current months is being helpful in meeting the inflation problem, especially with regard to credit control, and its shrinkage will be of help later when a depression sets in. Yet, the automatic increase has been wholly insufficient to cope with the present problem of inflation, and it will also be insufficient to cope with a later problem of deflation. Using such assumptions as seem reasonable for a post-inflation year, we estimate that built-in flexibility may be expected to dampen the amplitude of fluctuations by perhaps one-third of what they would have been in its absence.[4] Unless potential fluctuations in income should be so small in the future that they may be permitted largely to run their course—and there is no reason whatsoever to assume that this will be the case—the major compensatory contribution will still have to come from deliberate budget adjustments. In view of this, the principle of all but exclusive reliance on built-in flexibility such as advocated in the recent C.E.D. report on fiscal policy, presents a dangerous state of mind since it will lead to mentally and technically inadequate preparation for deliberate action.[5]

On the contrary, it is all important that we provide for a mechanism by which changes in expenditure levels or tax rates may be put into effect promptly and with a minimum of friction. On the expenditure side we are confronted with the familiar problem of the public work reserve and this is largely a matter of adequate appropriations and planning. On the tax side, the cumbersomeness of the legislative process looms as a more severe obstacle. One compromise approach might be through legislative provision for automatic changes in tax rates (and, perhaps, expenditure programs), such changes to be geared to fluctuations in an official index of income or employment. While this technique retains the disadvantage of being excessively mechanical—the same initial fluctuation in income or employment may under different conditions require quite different degrees of compensatory action — built-in rate flexibility might be of great quantitative importance and permit prompt adjustment without requiring congressional delegation of authority to vary tax rates.

(3) We need not labor the point that our case for compensatory finance is no case against the use of other policies. Adjustments in budget surplus and deficit can impose effective checks to inflation or deflation where the excess or deficiency in aggregate demand extends broadly throughout the economic system, and the crucial importance of compensatory policy derives from the fact that the state of the economy is frequently one where such conditions exist. However, this is not the entire problem. The general deficiency or excess in demand may be caused and is usually accentuated, by specific maladjustments which will continue to grow after the difficulty has become general and which will require specific remedies.[6]

While it is quite likely that compensatory policy, if sufficiently vigorous and sustained, can prevent a period of severe and prolonged unemployment, there is less reason to be optimistic about the efficacy of compensatory action to situations of sharp inflation pressure. In part this is due to the fact that the politics of fiscal policy are less favorable to proper action under conditions of inflation (the primary interest being in tax reduction) and in part it is due to the dynamics of the inflation process which makes supplementary action along other lines (including credit and wage-profit controls) more urgent than in the deflation case.

3 If the economy is in a situation of unemployment, built-in flexibility will check recovery. Note that the built-in [illegible] adjusted so as to escape this shortcoming.

4 For a discussion of this point see a note by R. A. Musgrave and Merton Miller, "Built-in Budget Flexibility," to appear in the *American Economic Review*, March, 1948.

5 See "Taxes and the Budget; a Program for Prosperity in a Free Economy," Committee for Economic Development, November, 1947. A further difficulty with the automatic budget policy arises in determining the initial level of tax rates which is to be left alone thereafter. The proposed formula "to set taxes so as to balance the budget at full employment" sounds attractive and may have some merit as a rule-of-thumb device, but it does not offer a satisfactory solution. The formula is satisfactory only if it can be assumed that in the average year a balanced budget is compatible with full employment. This assumption can not be made and, accordingly, it is necessary to predict the economic outlook in order to determine the proper level of initial rate adjustment. Such prediction, of course, is most difficult if not impossible. Again, reliance will have to be placed upon periodic adjustment of rates.

6 Such specific controls may also involve fiscal action, as for example in the case of subsidy policies during depression or capital gains taxation in the boom.

Business Man's Bookshelf

Creeping Paralysis of Europe, The—Melchior Palyi—Henry Regnery Company, Hinsdale, Ill.—paper—25¢.

Financial and Economic Survey of the Meat Packing Industry, A—1947 Supplement—W. E. Hoadley, Jr., E. Baughman, and W. P. Mors—Research Department Federal Reserve Bank of Chicago—paper—available on request (limited number of copies of original study also available).

Railroad Finance—A Report by the Subcommitte on Finance — Association of American Railroads, Transportation Building, Washington 6, D. C.—paper.

Cites Inflationary Federal Policies

(Continued from page 12)

of which more than $2 billion had been added during the 12 months ended on that date. By way of comparison it may be noted that the loans of all banks in the United States on June 30 of this year totaled less than $38.4 billion and that they had increased by less than $6.9 billion during the preceding 12 months. In addition to making outright loans, government agencies guarantee loans made by others. In part, the recent increase in real estate loans of banks has reflected the purchase of mortgages guaranteed by government agencies.

Use of Central Bank Powers

"The obstacles to effective credit regulation seem to lie in the nature of the present situation rather than in the lack of sufficient regulatory powers. The central banking authorities who ask for broader powers already have far more than they can safely use. Federal Reserve bank holdings of government securities have declined only about $2 billion from the peak a year ago and now stand at $22 billion, with excess reserves of member banks estimated at nearly $1 billion. The discount rates of the Federal Reserve banks are uniform at 1% and have not been changed in nearly six years, although the rates for advances secured by short-term government obligations were raised from ½% to 1% about two years ago. The reserve requirement for member banks in central reserve cities has remained for more than five years at 20%, as against a legal maximum of 26%. There have recently been intimations that official action on discount rates and reserve requirements may be taken in the near future.

Other Monetary Steps

"It now appears that the amendment to the Federal Reserve Act in June, 1945, reducing the reserve requirements for the Federal Reserve banks themselves from 40% against notes and 35% against deposits to a uniform 25% is not to be repealed. The lower requirement is to remain unchanged, despite the fact that the actual reserve ratio has risen from less than 43% a year ago to 49% at present. Restoration of the former requirements would reduce the excess reserves of the Federal Reserve banks from the present figure of $10½ billion to slightly less than $5 billion. This change would have no necessary immediate effect on commercial bank credit; but the psychological effect might be appreciable, and in any case the restoration of the old rates would seem desirable on general principles.

"The same considerations suggest the advisability of abolishing the government's authority to alter its purchasing price for gold, an authority that is potentially dangerous and that has been made the basis for recurrent rumors of further devaluation of the dollar. Another potentially inflationary influence is the Federal silver-purchase legislation, which at present is not a factor of primary importance in the monetary situation but which forces the Treasury to buy newly mined domestic silver at an artificially high price and regardless of whether or not the silver is needed for monetary use.

Influence on Specific Prices

"One of the principal causes of rising prices on the farm and elsewhere is government buying for foreign aid, past and prospective. With the interim aid program well on its way toward final enactment, and with consideration of the Marshall plan to follow in the next few months, it seems likely that the scale of buying will remain large for several years; and it is essential that the buying be done with more regard for its effects on domestic prices that has sometimes been shown in the past.

Labor Policy

"The Government's labor policy has been a powerful factor contributing to inflationary pressures. Wage and hour legislation has tended to restrict output and raise costs and prices. The Taft-Hartley act has outlawed some monopolistic union practices but has left others unaffected. Unions still enjoy exclusive immunity from the anti-trust laws. Industry-wide bargaining is still permitted. Although the closed shop is prohibited, its close relative, the union shop, continues to flourish. 'Featherbedding' practices of numerous kinds still restrict productivity. The strong moral influence of the government, exerted through official statements, arbitration awards, reports of 'fact-finding' boards, and in some cases through direct intervention by the President, has been almost exclusively on the side of higher labor costs. The outright contention that wages in general can be increased without an offsetting rise in prices seems to have been tacitly abandoned, but there has never been an explicit disavowal of this now thoroughly discredited idea."

Economists Report on 1948 Business Outlook

(Continued from page 8)

that will be of moderate duration, reaching its turning point within six to 12 months after the decline begins. . . . It seems probable that sometime in the next six months we are going to have this particular downturn. It may come before wage increases take place or after; if it comes before wage increases, the prospect of wage increases will diminish. If it comes afterward, of course, the magnitude of decline will be different. I do not think wages will decline generally in this falling off. . . . My guess is that the drop in profits, once we have turned down next year, will be substantial. . . . I wouldn't be surprised to see us get up to six or eight million unemployed."

* * *

Everett Hagen Sees Country Entering Second and Longer Stage of Expansion—"I think the Federal Reserve Index will go up gradually during the next year, reaching perhaps an average of 195 in the first half of the year and 200 in the second half. Gross national product, with that increase in production and a little increase in prices, will be at an annual rate of about $242 billion in the first half and $245 billion in the second half. . . . I would place consumer prices at 168 in the first half and 170 in the second half. Employment, as estimated by the Bureau of the Census in its monthly report on civilian employment, should average around 58,000,0000 throughout the year, with a fairly stable level for each half, except for seasonal dips and rises. . . . The country is entering a second and longer stage of expansion in manufacturing and distributing capacity to serve the market comfortably, as well as to install technological advances."

* * *

Louis H. Bean Anticipates Gross National Product of $240 Billion in 1948—"I estimate 200 (Federal Reserve Board) for the first and second half of 1948 and gross national product of $240 billion. My cost of living figure is around 165, possibly a little less for the second half; wholesale price should be around 170. . . . My figure for the 1948 level of agricultural production is 130-132 compared with 136 for 1947."

* * *

Edwin B. George Expects Some Chance of Mild Recession Beginning Late in First Quarter of 1948—"Consumer spending will remain a strong influence during 1948. . . . The present uptrend in building activity (seasonally adjusted figures) will continue at a low rate. . . . There is no genuine ground for pessimism with respect to inventories. . . . Marshall Plan aid not likely to reach its peak quarterly rate in terms of actual expenditures until late 1948 and early 1949. . . . There is some chance of a mild recession beginning late in the first quarter and drifting into the third quarter. However, it appears to me that this is unlikely. . . . As to the general outlook for the second half, I think that pressures on supply and prices will be very heavy during this period—heavier than in the first half of the year."

* * *

Rufus S. Tucker Sees "Moderate Readjustment"—"I am in the happy position of feeling that the demand for our product (automobiles) will be the same no matter what happens to business in the next three or four years. . . . But for the next year, I am inclined to think that there will be a moderate readjustment, which means a lowering of a good many of the figures. I can't make up my mind whether this will come in January or June."

* * *

A. D. H. Kaplan Sees First Six Months Up; Last Half Down—"I am expecting the gross national product figure to go up during the first half of 1948, perhaps by $10 billion. . . . I also expect the second half to show a decline, but I don't think the gross national product for the year will run below what it is for 1947, again because of the price element. . . . Sooner or later—I am inclined to think it will be toward the latter part of 1948—we are going to notice the impact of that failure of a certain portion of the population to increase its income, in lowering of consumption. . . . I want to make this concluding point: I feel that, while there will be an inability of consumer income and purchases to keep up with the increase in prices by late 1948, I don't expect the recession to be anything but a moderate one, at least through 1948."

* * *

Solomon Fabricant "Not Pessimistic." Sees Future European Politics as Determining Factor—"Today we seem to be looking forward from a background of some six or eight months of what perhaps may turn out to be mild contraction, but most of us seem to be rather optimistic. . . . If, for example, certain political changes occur on the continent in early 1948, it is conceivable that the repercussions in this country may be such that any possible tendency toward a slump will be offset by certain actions taken . . . Well, I am not pessimistic."

* * *

Bradford B. Smith Foresees Sustained Production, Rising Prices and Continuing Maladjustments—"It seems to me that conditions spell for the future the same sort of general developments that they spelled a year ago namely, sustained production, rising prices, and continuing maladjustments. . . . There is still quite a lot of idle money yet to come into the market—and to come into the market without corresponding goods coming into the market. . . . We are going to have the continuation of the easy money policy through most of the year. . . . If we turn down in 1948, I think it will be because a lot of people, disappointed in their overoptimistic expectations, react by concluding that the Federal Reserve Board really means to stop the inflation. This psychological factor rather than any real effort by the board itself will stop it. . . . Disposable income will remain high. . . . No significant income change seems to be impending over the next six or eight months, or maybe even a little longer. . . . It would seem to me that from the income side we will continue to have a high level which will necessarily help to sustain high-level demand. . . . Food prices are 'way out of line. That inevitably spells difficulty for the economy, sooner or later, because such distortions impede the most efficient flow of resources. . . . Rents are going to increase. . . . We still are spending too much for nondurable goods in terms of any past relationship and still too little for durables."

* * *

Jules Backman Sees Continuing High Levels of Production and Demand—"The export balance probably will not increase. . . . Government budgetary surplus will be a deflationary influence. . . . Looking ahead through the first half of next year, it seems to me that high-level demand and high-level production will continue. . . . I wouldn't be surprised, however, to see it remain at a high level throughout the entire year."

* * *

O. Glenn Saxon Sees Peak of Postwar Prices Reached by Mid-1948; Decline to Follow—"My own view is that we will have rising wholesale commodity prices, perhaps to the extent of 15% to 20% between now and June; also, a 5% to 10% rise in the cost of living. I think that thereafter there will be a slow decline in all prices. By at least midsummer of 1948, and perhaps earlier than that, we will reach the peak of the post-World War II prices and begin to show a slow decline thereafter. . . . I think that there will be perhaps as much as a 10% decline in farm income next year and I am hopeful that we can get by next year without another round of wage increases."

Source: "The Business Outlook for 1948"; "An Evening with the Economists"; "Studies in Business Economics No. 14."

Price Information: Single copy: $.50; quantity prices on application.

Reports Consumer October Price Index At All Time High

Industrial Conference Board computation shows rise of 0.5% in September with food down 0.6%.

The consumer's price index (formerly called "Cost of Living Index") for mid-October, 1947, rose 0.5% above that for mid-September to reach a new all-time high, according to figures just released by the National Industrial Conference Board. The board's index for mid-October, 1947, stood at 130.9 compared with 130.2 in September, 1947. Base date of the series is 1923 as 100.

From September, 1946, to October, 1947, the weighted average of all items in the index climbed 14.1%.

Expressed in 1923 dollars, the purchasing power of the dollar stood at 76.4 cents in October, 1947. This represents a drop of 0.5% from September, 1947, and a drop of 12.4% from September, 1946.

In 51 of the 62 cities included in the survey, the index rose from September to October. Birmingham, Ala., showed the greatest increase (up 1.9%); Bellefonte, Pa., Chicago and Roanoke each showed rises of 1.6%. Three cities (Muskegon, Mich., Philadelphia and Trenton) were unchanged. Eight cities showed a decline in the consumers' price index from September to October. These were: Baltimore (down 0.1); Fall River (down 0.1); Providence (down 0.1); Youngstown (down 0.2); Los Angeles (down 0.4); New Haven (down 0.7); Rochester (down 0.7); and Wilmington (down 1.1).

From mid-September to mid-October, 1947, housing, up 3.8%, showed the greatest increase. During the same period, fuel and light was up 0.6%; clothing up 0.5% and the sundries index was up 0.7%. Food was down 0.6%.

Changes, Sept., 1946-Oct., 1947

Food rose 24.5% from September, 1946, to October, 1947. In the same period (Sept., 1946-Oct., 1947) the following changes were noted: clothing, up 9.2%; fuel and light, up 7.2%; sundries, up 8.8%; and housing, up 3.8%.

The Conference Board's "Consumers' Price Index" or "Index of Quoted Retail Prices for Consumers' Goods and Services Purchased by Moderate-Income Families" is now compiled monthly. Previously, compilations were made quarterly.

Zuckerman, Smith and Newburger Co. Formed

Following the dissolution of Paul S. Zuckerman & Co. and Newburger & Hano, announcement is made of the formation of Zuckerman, Smith & Co., members New York Stock Exchange. The new firm will maintain its principal office at 61 Broadway, New York City, and a midtown office at 1441 Broadway. Partners of the firm are Paul S. Zuckerman, member New York Stock Exchange; H. Bertram Smith, Lester E. Degenstein, James W. Wolff, Joseph A. Esposito, member New York Stock Exchange, and Samuel M. Goldsmith, special partner.

Announcement also is made of the formation of the New York Stock Exchange firm of Newburger & Co., with its principal office in Philadelphia, at 1342 Walnut Street, and branch offices in New York, Harrisburg, Lebanon and Atlantic City. Partners of the firm are Frank L. Newburger, Jr., Richard L. Newburger, Robert S. Thanhauser, Herman P. Liberman, Leonard B. Geis, Irvin L. Stone, S. Nathan Snellenburg and Peter Morgenstern, member New York Stock Exchange.

Seasongood & Haas Acquires Bond Dept.

Seasongood & Haas, 63 Wall Street, New York City, members of the New York Stock Exchange, announce that they have acquired the New York bond department and the entire Philadelphia office of Charles Clark & Co. The bond business of the latter firm will be continued by Seasongood & Haas under the direction of two former general partners of the Clark organization, Myron F. Schlater, as manager of the New York bond department, and Leighton H. McIlvaine, as manager of the Philadelphia office.

Prior to joining Charles Clark & Co. two years ago, Mr. Schlater was President of the municipal bond firm of Schlater, Gardner & Co. for 16 years.

Mr. McIlvaine entered the investment business in 1929 when he became associated with Janney & Co., where he remained until 1934. He then joined Lobdell & Co. When Charles Clark & Co. was formed in 1937, he became a general partner of that firm.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Acme Broach Corp., Ann Arbor, Mich.
Dec. 2, (letter of notification) 40,000 shares ($5 par) common. **Price**—$5 a share. **Underwriter**—Dean W. Titus and Co., Ann Arbor. To build factory, pay obligations and for working capital.

All American Industries, Inc., New York
Oct. 30 filed 100,000 shares ($1 par) common (name to be changed to American Steel & Pump Corp.) **Underwriter**—Herrick, Waddell & Co., New York. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind.

American Bankers Insurance Co. of Florida, Miami.
Nov. 3 (letter of notification) 2,500 shares of class A (par $10) common, 5,000 shares ($10 par) class B common, and 11,250 shares 8% ($10 par) cumulative preferred. **Price**—$240 per unit, consisting of 2 shares of class A, 4 shares of class B and 9 shares of preferred. No underwriting. For capitalization of company to enter into stock fire insurance business.

• American Time Corp., Springfield, Mass.
Dec. 26 (letter of notification) 25,000 shares (1c par) common on behalf of Richard H. Harper, Vice-President of the company. To be sold at market. **Underwriters** headed by Gearhardt & Co., New York.

• Anderson (V. E.) Mfg. Co., Owensboro, Ky.
Dec. 22 (letter of notification) 20,000 shares ($10 par) preferred. **Price**—$10 a share. No underwriting. To purchase planing mill and saw mill.

• Arizona Welding Equipment Co., Phoenix, Ariz.
Dec. 23 (letter of notification) $100,000 of 6% convertible sinking fund debentures and 2,000 shares of $1 par common. The debentures will be sold at $1,000 each and the common at $8.75 each. **Underwriters**—Pacific Coast Securities Co., San Francisco. To retire indebtedness and for working capital.

Armstrong Cork Co., Lancaster, Pa. (1/7)
Dec. 19 filed 88,179 shares (no par) cumulative preferred. **Underwriters** — Smith, Barney & Co.; Kidder, Peabody & Co., and The First Boston Corp., New York. **Offering**—Initially to be offered to common stockholders in the ratio of one share for each 16 shares held of record Jan. 7. Unsubscribed shares will be offered publicly. **Price**—By amendment. **Proceeds**—To finance expansion program. Offering expected Jan. 7.

• ASCO (Aeronautic Services Corp.), Cheyenne, Wyo.
Dec. 22 (letter of notification) 2,000 shares of preferred. **Price**—$100 each. To be sold through officers and directors. To purchase assets of Plains Airways, Inc., and for working capital.

• Buchanan (Mich.) Steel Products Corp.
Dec. 26 (letter of notification) 15,000 shares ($1 par) common on behalf of D. A. Donahue and Elmer W. Cress, President and Vice-President, respectively. To be sold at market. No underwriting.

California Union Insurance Co., San Francisco
Nov. 28 filed 99,700 shares of common stock (par $10). **Underwriter**—None. **Price**—$25 a share. **Proceeds**—For working capital.

• Cameron Aero Engine Corp., New York
Dec. 29 (letter of notification) 101,000 shares of common stock (par $1), of which 85,000 shares will be sold to the public; 8,500 shares will be issued to underwriters as additional underwriting consideration and 7,500 shares will be issued to American Die & Tool Co. for investment in return for cancelling $15,000 open account for machine tools. **Price**—$2 per share. **Underwirter**—R. A. Keppler & Co., Inc., New York. To provide operating funds, etc.

• Celon Co., Madison, Wis.
Dec. 22 (letter of notification) $250,000 of subordinated 12-year debentures. **Price**—Par. No underwriting. For additional working capital.

• Central Chemical Corp., Hagerstown, Md.
Dec. 29 filed 254,682 shares ($10 par) non cumulative 6% stock and 70,643 shares ($10 par) non-voting common Class B stock. **Underwriters**—To be sold through company officers and employees. **Offering** — To company stockholders, employees and customers. **Price**—At par. **Proceeds**—To retire indebtedness and for working capital. **Business**—Chemical business.

Central Illinois Public Service Co. (1/5)
Dec. 8 filed $10,000,000 30-year first and refunding mortgage bonds, series B. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co., and Smith, Barney & Co. (jointly); Glore, Forgan & Co.; Lehman Brothers; Salomon Bros. & Hutzler; Kuhn, Loeb & Co. **Price**—To be determined by competitive bidding. **Proceeds**—To finance construction program. **Bids**—Bids for the purchase of the bonds will be received at office of Middle West Service Co., 20 N. Wacker Drive, Chicago, up to 11:30 a.m. (CST) on Jan. 5.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding. On Dec. 8 only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. Underwriting to be determined by competitive bidding. No bids received at competitive bidding Dec. 15. Sale may be negotiated. **Proceeds**—For property additions and expenses.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. No underwriting. **Price**—$100 a share. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Cincinnati Gas & Electric Co.
Dec. 1 filed 204,000 shares ($8.50 par) common. No underwriting. **Offering**—To common stockholders of record Jan. 15 on the basis of one new share for each 10 shares held. Rights expire Feb. 2. Price by amendment. **Proceeds**—To finance construction.

• Clark (John C.) Co., Philadelphia
Dec. 23 (letter of notification) 122 shares of capital stock on behalf of the estate of Linda S. Leavitt, deceased. To be sold at market. **Underwriter**—Samuel Lander, Philadelphia.

• Clarvan Corp., Milwaukee, Wis.
Dec. 23 (letter of notification) 525 shares of 5% cumulative preferred ($100 par). Heronymus & Co., Sheboygan, Wis., is offering 90 shares on its own account. **Price**—$100 a share. For working capital.

Cleveland (Ohio) Electric Illuminating Co.
Sept. 26 filed 254,989 shares (no par) preferred, series of 1947. **Underwriter** — Dillon, Read & Co., New York. **Offering**—To be offered share for share plus a cash adjustment for outstanding $4.50 preferred. Unexchanged shares of new preferred will be sold publicly. Price by amendment. **Proceeds**—To retire unexchanged shares of old preferred. Registration statement being withdrawn.

Clinton (Ia.) Industries, Inc.
Dec. 15 filed 210,000 shares ($1 par) capital stock. **Underwriting**—None. **Offering**—Shares are to be offered in exchange for 300,000 shares of Obear-Nester Glass Co., St. Louis.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

Coosa River Newsprint Co.
Dec. 23 filed 238,829 shares of common (par $50). Underwriting none. **Offering**—Stock will be offered direct to public through directors and officers. Price, par. **Proceeds**—Erect and operate mill for manufacture of newsprint from Southern pine. Company also contemplates the sale of $16,000,000 4% 1st mortgage bonds.

Dayton (Ohio) Power & Light Co.
Dec. 5 filed 170,000 shares ($7 par) common. **Underwriting**—The common shares will not be underwritten. **Offering**—The common shares will be offered for subscription by stockholders on the basis of one share for each nine shares held. **Price**—To be supplied by amendment. **Proceeds**—To finance construction program.

Dayton (Ohio) Power & Light Co. (1/6)
Dec. 5 filed $8,000,000 30-year first mortgage bonds. **Underwriting**—To be sold at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co., Inc., and The First Boston Corp. (jointly); Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To finance construction program. **Bids**—Bids for purchase of bonds will be received up to noon (EST) Jan. 6 at office of Irving Trust Co., 1 Wall Street, New York.

Dee Stores, Inc., Olean, N. Y. (1/5-9)
Dec. 15 (letter of notification) 90,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriters**—Willis E. Burnside & Co., Inc., and Otto Fuerst & Co., New York. **Purpose**—Working capital.

NEW ISSUE CALENDAR

January 5, 1948
Central Illinois Public Service Co., 11:30 a.m. (EST) — Bonds
Dee Stores, Inc. — Common
De Walt Inc. — Common
North Central Texas Oil Co. — Common
Public Service Co. of N. H. Noon (EST) — Bonds

January 6, 1948
Dayton Power & Light Co., Noon (EST) — Bonds
Detroit Edison Co., 11:30 a.m. (EST) — Common
Illinois Central RR. — Equip. Trust Ctfs.
St. Louis-San Francisco Ry. — Cond. Sales Agree.

January 7, 1948
Armstrong Corp. Co. — Preferred

January 8, 1948
Delaware Lackawanna & Western RR. Noon (EST) — Equip. Trust Ctfs.
Gulf States Utilities Co. — Common
Northeastern Water Co. — Bonds

January 12, 1948
General Instrument Corp. — Common

January 14, 1948
Potomac Electric Power Co. — Bonds
Southwestern Gas & Electric Co. — Bonds

January 20, 1948
Joy Manufacturing Co. — Common
Potomac Edison Co. — Bonds

January 21, 1948
Southern California Edison Co. — Bonds

February 2, 1948
Iowa Power & Light Co. — Bonds

Detroit Edison Co. (1/6)
Dec. 12 filed 450,000 shares of capital stock (par $20). **Underwriters**—Stock to be sold at competitive bidding by American Light & Traction Co. Probable bidders: The First Boston Corp.; Coffin & Burr, and Spencer Trask & Co. (jointly). American Light & Traction plans to use the proceeds to finance a natural gas pipeline from Texas to Detroit. **Bids**—American Light & Traction Co. will receive bids up to 11 a.m. (EST) Jan. 6 for the purchase of the stock, at Room 1730, 165 Broadway, New York.

De Walt, Inc., Lancaster, Pa. (1/5-9)
Dec. 5 filed 110,000 shares ($2.50 par) common. **Underwriter**—Reynolds & Co., New York. **Price**—By amendment. **Proceeds**—Company is selling 20,000 shares and the remaining 90,000 shares will be offered by stockholders. The company will use its proceeds for plant construction and for working capital.

Dogpaw Gold Mines Ltd., Toronto
Oct. 22 filed 1,000,000 shares ($1 par) capital stock. **Underwriter**—Tellier & Co. **Price**—40¢ per share. **Proceeds**—To develop mining properties in Flint Lake locality of Ontario.

• Domestic Credit Corp., Chicago
Dec. 29 filed 150,000 shares ($1 par) Class A Common. **Underwriters**—None. **Offering**—To be offered to employees, executives and management personnel. **Price**—$3.49 a share. **Proceeds** — Company did not state how proceeds will be used. **Business**—Operation of small loan offices.

Doughboy Bottling Co., Pittsburgh, Pa.
Oct. 24 (letter of notification) 50,000 shares of 6% preferred ($5 par). **Price**—$5.75 a share. **Underwriter**—McLaughlin, MacAfee & Co., Pittsburgh, to acquire and equip a bottling plant.

Electric Steam Sterlizing Co., Inc., N. Y.
Sept. 22 (letter of notification) 65,000 shares of common stock (par 10¢). **Price**—65 cents per share. **Underwriter**—Reich & Co., New York. Purchase of inventory, etc.

(Continued on page 38)

• Equity Fund, Inc., Seattle, Wash.
Dec. 29 filed 103,089 shares of common. **Underwriters**—Pacific Northwest Co., Seattle. Price based on market

(Continued from page 37)

prices. **Proceeds** — For investment. **Business** — Investment business.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$5.25 per share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds.

Frigidinners, Inc., Philadelphia
Dec. 4 (letter of notification) 75,000 shares ($2 par) common and 15,000 shares of common reserved for issuance upon exercise of warrants. **Price**—$2 a share. **Underwriter**—Woodcock, McLear & Co., Philadelphia. To pay off loan and for working capital.

Gabriel Co., Cleveland
Oct. 24 (letter of notification) 10,000 shares ($1 par) common, on behalf of Wm. H. Miller, a director of the company, to be sold at market. **Underwriter**—Sills, Minton & Co., Chicago. Indefinitely postponed.

General Instrument Corp. (1/12-16)
Nov. 14 filed 150,000 shares of common (par $1). **Underwriter**—Burr & Co., Inc., New York. **Proceeds**—Stock being sold by four stockholders who will receive proceeds. Price by amendment.

• **Glass Fibers, Inc., Waterville, O.**
Dec. 30 filed 343,000 shares ($1 par) common. **Underwriter**—Kebbon, McCormick & Co., Chicago. Price by amendment. **Proceeds**—To repay indebtedness and for working capital. **Business**—Manufacture of fiber glass and bonded mat glass.

Gulf States Utilities Co. (1/8)
Nov. 13 filed 272,852 shares (no par) common. **Underwriter**—Stone & Webster Securities Corp. and others. Offered to common stockholders of record Dec. 16 on the basis of one new share for each seven held. Rights expire Jan. 7, 1948. **Price**—$12.50 per share. Company also plans to sell privately 50,000 shares ($100 par) preferred $4.50 series. **Proceeds**—For new construction.

• **Harshaw Chemical Co., Cleveland, O.**
Dec. 26 filed 58,612 shares ($10 par) common. **Underwriters**—McDonald & Co., Cleveland. **Offering**—The shares initially will be offered for subscription by stockholders. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—To repay short-term bank indebtedness. **Business**—Manufacture of chemicals.

Illinois-Rockford Corp., Chicago
July 24 filed 120,000 shares ($1 par) common. Underwriters—Brailsford & Co., and Straus & Blosser, Chicago. **Price**—$9.25 a share. **Proceeds**—The shares are being sold by four stockholders and represent part of the stock the sellers will receive in exchange for their holdings of four furniture companies to be merged with the registrant. The merging companies are Toccoa Manufacturing Co. and Stickley Brothers, Inc., both Illinois corporations, and the Luce Corp. and Stickley Bros. Institutional Furniture Co., both Michigan corporations. Indefinitely postponed.

• **Inter County Telephone & Telegraph Co., Fort Myers, Fla.**
Dec. 24 (letter of notification) 4,000 shares of 5% cumulative preferred stock. **Price**—$25 a share. **Underwriter**—Florida Securities Corp., St. Petersburg, Fla. For property improvements.

Interstate Department Stores, Inc.
Oct. 30 filed $5,000,000 15-year sinking fund debentures. **Underwriter**—Lehman Brothers, New York. Price to be filed by amendment. **Proceeds**—To repay bank loans and for general corporate purposes including the financing of new stores. Temporarily postponed.

Iowa Power & Light Co. (2/2)
Dec. 22 filed $6,000,000 first mortgage bonds, series due 1973. **Underwriting**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Halsey, Stuart & Co., Inc.; Glore, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co.; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **Price**—By amendment. **Proceeds**—Construction. **Bids** — Expected about Feb. 2.

• **Jersey Sports Arena, Inc., Hackensack, N. J.**
Dec. 24 (letter of notification) 10,000 shares ($25 par) preferred and 10,000 shares ($1 par) common. **Price**—$26 per unit, consisting of one share of each. **Underwriter**—Barington Elliot, Fort Lee, N. J. For construction of an arena.

Johnson Bronze Co., New Castle, Pa.
Nov. 10 filed 150,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds** — Stock being sold for account J. P. Flaherty, a stockholder.

Joy Manufacturing Co. (1/20)
Dec. 19 filed 185,000 shares of common (par $1). **Underwriters**—Hallgarten & Co., R. W. Pressprich & Co. and Adamex Securities Corp. **Price**—By amendment. **Proceeds**—Repayment of $4,400,000 bank loans and increase company's general funds.

Kansas Soya Products Co., Inc., Emporia, Kans.
Dec. 3 (letter of notification) 3,157 shares ($95 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

• **Kentucky Chemical Industries, Inc., Cincinnati, Ohio**
Dec. 22 (letter of notification) 2,820 preferred shares. **Price**—$100 a share. To be sold through officers. For additional capital.

• **Kentucky Water Service Co., Louisville, Ky.**
Dec. 23 (letter of notification) 10,000 shares ($25 par) 6% cumulative preferred. **Price**—$26.50 a share. **Underwriters**—The Bankers Bond Co. and Smart & Wagner, both of Louisville, Ky. To pay for acquisition of water properties.

Lock Nut Corp. of America
Oct. 6 (letter of notification) 24,000 shares of 5% cumulative convertible preferred stock (par $12.50). **Underwriter**—Ray T. Haas, Chicago. **Price**—$12.50 per share General corporate purposes.

Louproco Realties, Inc., Louisville, Ky.
Nov. 26 (letter of notification) $182,500 of 10-year first mortgage refunding 6% bonds, due 1958. To be sold at face amount. **Underwriter**—The Bankers Bond Co., Inc., Louisville, Ky. To refund a like amount of bonds due Dec. 31, 1947.

• **McClanahan Oil Co., Grand Rapids, Mich.**
Dec. 30 filed 260,000 shares ($1 par) capital stock. **Underwriters**—None. **Offering**—Shares will be exchanged for $1 par stock of Great Lakes Chemical Corp. on the basis of one share of McClanahan common for each two shares of Great Lakes common. Offer will expire March 15, 1948. **Business**—Oil business.

McColl-Frontenac Oil Co., Ltd., Montreal, Can.
Dec. 16 filed 900,000 shares (no par) common. **Underwriting**—None. **Offering**—The shares will be offered for subscription by stockholders on the basis of one for each two shares held. No plans have been made for unsubscribed shares. **Price**—By amendment. **Proceeds**—For building expenditures and to repay bank loan. **Business**—Refinery business.

McKay Davis Inc., Toledo, O.
Nov. 17 (letter of notification) 28,000 shares (10 par) 5% cumulative preferred and 20,000 shares (no par) common. To be sold in units of seven shares of preferred and five shares of common for $75 per unit. **Underwriter**—Clair S. Hall & Co., Cincinnati, O. For working capital and general corporate purposes.

Manhattan Coil Corp., Atlanta, Ga.
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. Underwriter—Kirchofer & Arnold, Inc., Raleigh, N. C. **Price—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. Proceeds—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.**

• **Market Basket, Pasadena, Calif.**
Dec. 30 filed 27,788 shares (50c par) common. **Underwriters**—None. **Offering**—Shares are to be issued upon exercise of common stock purchase warrants issued in July, 1945. **Price**—Two shares per warrant at $6 a share. **Proceeds**—For additional working capital. **Business**—Operation of 26 retail food stores in California.

Monsanto Chemical Co., St. Louis
Nov. 28 filed 250,000 shares (no par) $4 dividend cumulative preference stock, series B. **Underwriter**—Smith, Barney & Co., New York. Price to be filed by amendment. Proceeds for general corporate purposes including financing new plant construction and additions to present facilities. Offering postponed due to market conditions.

• **New York Telephone Co.**
Dec. 30 filed $60,000,000 30-year refunding mortgage bonds, Series E. **Underwriters**—To be determined by competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Price**—To be determined by competitive bidding. **Proceeds** — To finance construction program. **Business**—Telephone communications.

• **North Central Texas Oil Co., Inc., N. Y. (1/5)**
Dec. 29 (letter of notification) 2,500 shares of common stock (par $5). Price, market (about $16.50 per share. Stock will be sold on the New York Curb Exchange through F. B. Thorne & Co., New York. Proceeds to Mrs. Hildegarde K. Thorne.

• **Northeast Airlines, Inc., Boston, Mass.**
Dec. 24 filed 83,333 shares (no par) $1 cumulative convertible preferred. **Underwriter**—Atlas Corp., owner of 100,000 shares of the registrant's common stock, has agreed to purchase all shares not subscribed for by other stockholders. **Offering**—The shares will be offered for subscription to common stockholders on the basis of one share for each six common shares held. Price by amendment. **Proceeds**—To pay off indebtedness. **Business**—Air carrier business.

Northeastern Water Co. (1/8)
Dec. 22 filed $10,000,000 sinking fund collateral trust bonds, due Jan. 1, 1968. **Underwriters**—W. C. Langley & Co. and The First Boston Corp. **Price**—By amendment. **Proceeds**—To pay bank loan.

Northern Indiana Public Service Co.
Oct. 29 filed 272,694 shares ($20 par) cumulative preference stock. **Underwriters**—Central Republic Co. Inc., Chicago; The First Boston Corp., and Blyth & Co. Inc., New York. **Offering**—For subscription by common stockholders on basis of one preferred share for each eight common shares held. Unsubscribed shares will be offered publicly. **Price**—$21 a share. **Proceeds**—To improve its public utility system.

Nutrine Candy Co., Chicago
Dec. 9 (letter of notification) 1,000 shares of common stock (par $1). Price at market. **Underwriter** — Stifel, Nicolaus & Co. Donated to selling stockholder—Jewish Welfare Fund.

Ohio Public Service Co.
Dec. 22 filed $10,000,000 first mortgage bonds, series due 1978. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Blyth & Co.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly). **Price**—By amendment. **Proceeds**—To be used for construction.

Olokele Sugar Co., Ltd., Honolulu, Hawaii
Dec. 16 (letter of notification) 12,600 shares ($20 par) common. **Price**—$20 a share. No underwriting. To complete irrigation and water supply system and to repay indebtedness.

• **Opekasit-Ohio, Inc., Hamilton, O.**
Dec. 22 (letter of notification) 5,000 shares ($50 par) Class A Common. **Price**—$50 a share. No underwriting. For working capital.

• **Peoples Home Equipment Co., Cleveland, O.**
Dec. 22 (letter of notification) $100,000 8% five-year debenture notes. To be sold in denominations of $500 and $1,000. To be sold through officers of the company. For working capital and payment of indebtedness.

• **Pepsi-Cola Co., Long Island City**
Dec. 26 (letter of notification) 1,431 shares of capital stock (par 33⅓c) representing scrip certificates. Shares will be sold on New York Stock Exchange (through Van Alstyne Noel & Co.) and proceeds held for holders of scrip certificate upon demand and surrender of scrip certificates.

• **Peterson Enterprises, Inc., New York**
Dec. 29 (letter of notification) 1,000 shares of 5% cumulative preferred stock (par $50) Price, $50. Underwriting, none. Purchase of tools, etc.

Pittsburgh Steel Co.
Nov. 20 filed $6,500,000 of first mortgage bonds, due 1967. **Underwriters**—Kuhn, Loeb & Co.; A. G. Becker & Co., Inc. and Hemphill, Noyes & Co. Price by amendment. **Proceeds** — To refund outstanding first mortgage bonds. Temporarily deferred.

Potomac Edison Co., Hagerstown, Md. (1/20)
Dec. 16 filed $4,000,000 30-year first mortgage and collateral trust bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co., and The First Boston Corp. (jointly); Blyth & Co., Inc.; Harriman Ripley & Co.; Shields & Co. **Proceeds**, together with $1,000,000 from sale of 50,000 shares of common to parent, West Penn Electric Co., will be used to repay bank loan and for new construction. Expected about Jan. 20.

Potomac Electric Power Co. (1/14)
Dec 19 filed $15,000,000 35-year first mortgage bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co., and Blyth & Co., Inc. (jointly); Harriman Ripley & Co.; Kidder, Peabody & Co. and Merrill, Lynch, Pierce Fenner & Beane (jointly) White, Weld & Co., Glore, Forgan & Co. **Proceeds**—To finance construction and for other corporate purposes. Expected about Jan. 14.

Precision Parts Co., Ann Arbor, Mich.
Dec. 15 (letter of notification) 15,000 shares ($1 par) common, on behalf of six stockholders, including four officers of the company. To be sold at market to Baker, Simonds & Co., Detroit.

Public Service Co. of New Hampshire (1/5)
Nov. 25 filed $3,000,000 30-year series C first mortgage bonds due 1978. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp., Coffin & Burr, Inc. (jointly); Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Halsey, Stuart & Co. Inc., Kuhn, Loeb & Co., Harriman Ripley & Co. and Smith, Barney & Co (jointly). **Proceeds**—To pay off loans and for construction purposes. **Bids**—Bids for purchase of bonds will be received up to noon (EST) Jan. 5 at company's office, 1087 Elm Street, Manchester, N. H.

Public Service Co. of New Hampshire
Nov. 25 filed 139,739 shares of common (par $10). **Underwriters**—To be determined by competitive bidding. **Offering**—Common stock first will be offered for subscription to present shareholders at the rate of one share for each five shares held. Unsubscribed shares and the bonds will be offered publicly. **Proceeds**—To pay off loans and for construction purposes.

• **Public Service Co. of North Carolina, Inc.**
Dec. 22 (letter of notification) $100,000 of 5% sinking fund debentures, due 1951. To be sold at face amount. **Underwriter**—Paul & Co., Inc., New York. To reduce bank loans and for working capital.

• **Rotella Beverages, Inc., Newark, N. J.**
Dec. 24 (letter of notification) 150,000 shares (par $1) **Price**—$1. To be sold to friends and customers through officers. To liquidate RFC loan and for additional working capital.

South Carolina Electric & Gas Co.
Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 404,293 shares ($4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

• **Southern California Edison Co. (1/21)**
Dec. 30 filed $40,000,000 first and refunding mortgage bonds. **Underwriters**—To be determined through competitive bidding. **Probable Bidders**—The First Boston Corp.; Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. **Proceeds**—For construction of additional power facilities. Expected Jan. 21.

Southeastern Telephone Co., Chicago
Dec. 19 (letter of notification) 13,999 shares of common. **Price**—$12.75 a share. No underwriting. For property additions and improvements.

Southwestern Gas & Electric Co. (1/14)
Nov. 5 filed $7,000,000 30-year first mortgage bonds, series B. **Underwriting**—To be determined at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Lehman Brothers and Lazard Freres & Co. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Harriman, Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To finance construction program. Expected about Jan. 14.

Southwestern Public Service Co., Dallas, Tex.
Dec. 24 filed 10,000 shares ($100 par) cumulative preferred and 103,113 shares ($1 par) common. **Underwriting**—To be filed by amendment. **Offering**—The preferred will be offered publicly and the common will be offered to Southwestern's common stockholders at the rate of one share for each 11 held. Price by amendment. **Proceeds**—To retire bank loans and for construction purposes.

● **Sterling Electric Motors, Inc., Los Angeles, Calif.**
Dec. 19 (letter of notification) 10,250 shares ($1 par) common on behalf of C. E. Johnson and E. Mendenhall, President and Vice-President of the company, respectively. **Price**—$9.75 a share. **Underwriter**—Maxwell, Marshall & Co., Los Angeles.

Sunray Oil Corp.
Nov. 12 filed $40,000,000 20-year 3¾% sinking fund debentures and 250,000 shares 5% cumulative convertible second preferred stock, series of 1947 (par $100) and 2,500,000 shares of common stock (par $1) reserved for conversion. **Underwriters**—Eastman, Dillon & Co. heads a group of underwriters. **Purpose**—To financing merger of Pacific Western Oil Corp. and Mission Corp. into Sunray. Registration statement withdrawn.

Tampa (Fla.) Electric Co.
Dec. 24 filed $6,000,000 30-year first mortgage bonds. **Underwriting**—To be filed by amendment. Price by amendment. **Proceeds**—To pay construction costs.

Udylite Corp., Detroit.
Dec. 10 (letter of notification) 825 shares ($1 par) common. To be sold at market. **Underwriter**—Shader-Winckler Co., Detroit. To be added to capital.

● **Union Trusteed Funds, Inc., New York**
Dec. 29 filed 657,500 shares of capital stock. **Underwriters**—Lord, Abbett & Co., Inc., New York, is selling agent. Price based on market prices. **Proceeds**—For investment. **Business**—Investment business.

● **Vanadium-Alloys Steel Co., Latrobe, Pa.**
Dec. 23 (letter of notification) 2,000 shares (no par) capital stock. The stock includes 1,770 shares sold by the company during the past year under an employees stock purchase plan. Company buys stock at market through brokers and resells it to employees at the market price.

Washington (D. C.) Gas Light Co.
Nov. 7 filed 35,000 shares (no par) common. **Offering**—Shares are offered for subscription by common stockholders of record Dec. 26 on the basis of one share for each five held. Subscription warrants will expire Jan. 13, 1948. **Price**—$20 per share. **Dealer-Manager**—Company has arranged with a group of security dealers to manage the solicitation of stockholders' subscriptions. Heading this group are The Frist Boston Corp.; Alex. Brown & Sons; Auchincloss, Parker & Redpath; Johnston, Lemonn & Co.; Folger, Nolan, Inc.; Goodwyn & Olds; Mackall & Coe; Ferris & Co.; Robinson, Rohnbaugh & Lukens, and Robert C. Jones & Co. **Proceeds**—To be added to general funds for current construction program.

● **Western Solvents Inc., Boulder, Colo.**
Dec. 24 (letter of notification) 3,000 shares ($20 par) common and 250 shares ($20 par) 5% cumulative preferred. To be sold at par. No underwriting. For working capital.

● **Wisco Hardware Co., Madison, Wis.**
Dec. 26 (letter of notification) 500 shares ($100 par) common. **Price**—$110 a share. No underwriting. For working capital.

● **Wisconsin Power & Light Co., Madison, Wis.**
Dec. 29 filed $3,000,000 30-year first mortgage bonds, Series B, and 30,000 shares ($100 par) 4½% cumulative preferred stock. **Underwriters**—Only the bonds will be underwritten under competitive bidding terms. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Harriman Ripley & Co. (jointly); W. C. Langley & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp.; Shields & Co. **Offering**—Bonds will be offered publicly while stock will be offered to holders of 4½% preferred. Price by amendment. **Proceeds**—To pay bank indebtedness and for construction costs.

● **Zippy Corp., Oroville, Wash.**
Dec. 23 (letter of notification) 74,000 shares of common. **Price**—$1 a share. To be sold through officers of the company. For working capital.

Prospective Offerings

Delaware Lackawanna & Western RR. (1/8)
Bids for purchase of $1,600,000 equipment trust certificates series G will be received up to noon (EST) Jan. 8 at office of J. G. Enderlin, Treasurer, Room 2008, 140 Cedar St., New York. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Food Machinery Corp.**
Dec. 22 common stockholders approved an increase in authorized cumulative preferred ($100 par) stock to 100,000 shares from 70,000 shares and the authorized ($10 par) common to 3,000,000 shares from 1,500,000. Directors have authorized and declared a distribution to common stockholders of record Dec. 22 of 666,810 shares of common on basis of one additional share for each share then outstanding. The directors state that they do not currently intend to issue or sell any further shares of either preferred or common after this distribution.

Illinois Central RR. (1/6)
Company will receive bids Jan. 6 for the sale of $3,200,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon, Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **Interstate Power Co.**
Jan. 7 Federal Judge Paul Leahy will hold a hearing on alternative reorganization plan providing for the negotiated sale of new securities. On Dec. 29 the SEC granted company exemption from its competitive bidding rule with respect to the proposed sale of $20,000,000 of new first mortgage bonds, $5,000,000 of new debentures and not more than 1,500,000 common shares (par $3.50). A sufficient number of common shares will be sold to raise $3,635,500. There will also be outstanding a minimum of $1,000,000 of promissory notes. Proceeds from sale of new bonds, debentures and common stock would be used to pay, without premium, $26,035,000 of outstanding first mortgage bonds and to reimburse treasury for construction costs.

Michigan Consolidated Gas Co.
Dec. 5 reported company contemplates sale of $9,000,000 bonds. Proceeds for construction. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers; Dillon, Read & Co. Inc.; Glore, Forgan & Co.; White, Weld & Co.

St. Louis-San Francisco Ry. (1/6)
Company will receive bids up to noon (EST) Jan. 6 for the lowest interest rate at which bidders will provide $1,641,400 through conditional sales agreements.

Southwestern Bell Telephone Co.
Dec. 19 directors voted to recommend an increase in funded debt by no more than $100,000,000 through the sale at competitive bidding of a debenture issue of that amount. Proceeds would be used to repay advances received from the American Telephone & Telegraph Co., parent and to meet further requirements of the company's construction program in the first-half of 1948. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

Our Reporter's Report

The high-grade investment market has not yet had an opportunity to react freely to the move of the Federal Reserve in lowering its support levels for Treasury obligations.

Decision of the Reserve to "lower the peg" of its support for government bonds came at a time when large institutional investors, outside the banks, were virtually "locked-up," so far as their portfolios were concerned, for the balance of the year.

In consequence there has been only a meagre volume of trading in the week that has elapsed since that time and the consensus among investment bankers seems to be that the test is ahead.

The turn into the New Year naturally will bring a revival of more or less normal operations by major investors, chiefly the large insurance companies. As the market loosens up the test of the new conditions is expected to develop.

Up to this point even the "order business," that is for the account of trusts and others who must keep their funds invested, has literally dried up. True there has been some settling in the Treasury list with the long 2½s virtually at the 2.50% basis that appears to be the Reserve's goal.

There is one certainty, however, and that is that investment bankers must reappraise the whole market picture before going ahead with the task of setting up new corporate issues.

Insurance Investments

Insurance companies, a recapitulation of their investments discloses, added $3,347,000,000 to their bond and mortgage portfolios in the 12 months ended Oct. 31, last.

Expansion of 1.5 billion in holdings of industrial and miscellaneous obligations stood as the major increase, with holdings of railroad bonds rising only 48 millions in the period.

The increment in utility bond holdings was 1.1 billion while investments in U. S. Government paper dipped by 1.13 billion, but naturally still topped all other entries at 20.2 billion, or slightly better than 50% of the total.

$100 Millions More

Under shifting circumstances in the basic money market it may cost corporations a bit more to raise funds necessary to their contemplated expansion programs.

But judging by the current trend of stated intentions such funds are essential and potential borrowers have naught to do but pay the higher costs.

New York Telephone Co. touched off the new drive with announcement that it plans to sell, at competitive bidding, $60,000,000 of new refunding mortgage Series E bonds, due Feb. 1, 1978.

Simultaneously the Southern California Edison Co. has filed with the Securities and Exchange Commission for authority to issue $40,000,000 new bonds, to retire notes and reimburse its treasury for expenditures already made.

So. Calif. Edison Preferred

Up until the time of the Reserve's action in dropping its supporting bids for Treasury issues, the group which undertook to market 800,000 shares of Southern California Edison Co.'s 4.88% preferred stock was doing what it considered a good job of distribution.

Well over half the issue had been sold when the news broke. But since then things have been pretty much at a standstill. As a consequence the syndicate which had intended to keep books open into the New Year, decided the other day to dissolve and close the account.

The stock which was offered at 26¼ immediately settled back to 24¾ bid, 25½ asked, but not until at least one large insurance company had taken on an 80,000 share block at $25.42.

Bids Next Week

With SEC approval the American Light & Traction Co., is due to open bids next Tuesday for 150,000 shares of capital stock of the Detroit Edison Co. The selling company has been granted the privilege of supporting the market for the issue during the period of the sale.

On the same day Dayton Power and Light Co. will scan bids for $8,000,000 of new first mortgage bonds, due in 1978. This one is expected to attract liberal competition.

On Wednesday, unless there is a change in plans, bankers are due to bring to market the unsubscribed portion of 272,852 shares of common stock of Gulf States Utilities.

Uptown Branch for Jacquin

Jacquin, Bliss & Stanley, members of the New York Stock Exchange, announce the opening today of a midtown New York City office located in the Biltmore Hotel. Stanley T. Stanley and Ernest Jellinek will be the firm's resident partners in this new office. The main office of the firm will remain at 61 Broadway as heretofore.

Rosenthal Co. Adds

Rosenthal & Co., 60 Beaver Street, New York City, member of New York Stock Exchange and Commodity Exchange, Inc., and associate member of the New York Curb Exchange, announces that B. D. Fidanque, Jr., has become associated with the firm.

DIVIDEND NOTICES

NATIONAL CONTAINER CORPORATION

On December 23, 1947, a regular quarterly dividend of $0.296875 was declared on the 4¾% Cumulative Convertible Preferred Stock of National Container Corporation, payable February 2, 1948 to stockholders of record January 10, 1948.
HARRY GINSBERG, Treasurer

PACIFIC GAS AND ELECTRIC CO.

DIVIDEND NOTICE

Common Stock Dividend No. 128

The Board of Directors on December 17, 1947 declared a cash dividend for the fourth quarter of the year of 50 cents per share upon the Company's Common Capital Stock. This dividend will be paid by check on January 15, 1948, to common shareholders of record at the close of business on December 30, 1947. The Transfer Books will not be closed.
E. J. BECKETT, *Treasurer*
San Francisco, California

DIVIDEND NOTICES

MANHATTAN BOND FUND, INC.

The Board of Directors of Manhattan Bond Fund, Inc. has declared Ordinary Distribution No. 38 of 9 cents per share from regular investment income payable Jan. 15, 1948 to holders of record as of the close of business Jan. 5, 1948.

ROYAL TYPEWRITER COMPANY, INC.

A dividend of 1¾%, amounting to $1.75 per share, on account of the current quarterly dividend period ending January 31, 1948, has been declared payable January 15, 1948 on the outstanding preferred stock of the Company to holders of preferred stock of record at the close of business on January 7, 1948.

A dividend of 40¢ per share has been declared payable January 15, 1948, on the outstanding common stock of the Company, of the par value of $1.00 per share, to holders of common stock of record at the close of business on January 7, 1948.

December 30, 1947 H. A. WAY Secretary

ROYAL

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

There is enough legislative hay in the Congressional stalls to choke the biggest and hungriest parliamentary team.

Everything points to the prospect that the Congressional session beginning next Tuesday will be hectic. The pointers: In major issues alone the Congress has enough to occupy its entire time. There also will be minor and contingent issues galore — subjects which will be taken up as time permits. In any session which raises the curtain on a national and presidential election, there is always a lot of monkey business. When the Administration is of one party and the Congress of another, this naturally makes a lot more funny business inevitable.

* * *

Then time will be short. Under the Legislative Reorganization Act, Congress is supposed to get away early in July. Even if there were not this prod, Congress has to get much of its work out of the way early because when the Congressional primaries come along, whole state delegations depart for a week or so at a time.

So hectic often will appear too mild a description of the forthcoming session. At times it will appear to be downright chaotic.

* * *

Congress has an imposing list of major issues. These consist of long-term foreign aid, tax reduction, the budget. Congress also may have to take up something aimed at setting the brakes on inflation. The budget is sure to raise a heated contest. Part of this scrap will be whether the forthcoming budget expenditures can be cut. A greater part, however, will be over whether Congress, in the light of uncertainties over tax reduction, the size of foreign aid, and unfinished appropriations, can commit itself by Feb. 15, as required under the new "legislative budget" procedure, to a definite figure on proposed revenues and expenses.

* * *

Seasoned heads have talked about forgetting this "legislative budget" in 1948 as impractical. They fear that to commit themselves so early will be to make themselves again look foolish, if they cannot live up to their goals. Yet they also are afraid that they will be taunted by the opposition for ignoring the Legislative Reorganization Act, which Congress thinks the public regards as the holy of holies.

* * *

Then the Congressional majority is determined to put through the personal income tax cut, despite Administration opposition. The leadership intends to get that proposal adopted by Congress before the long-term foreign aid program is passed. However, foreign aid will not likely be adopted before March or April, and possibly even later. Hence the majority is under no compulsion to act hastily, and may even delay the final decision on the amount of the tax cut until all hands get a better idea of the prospective fiscal picture. That is why the leaders declined to commit themselves on the size of the tax cut last proposed, $5.6 billion, by Chairman Knutson of the House Ways and Means committee.

* * *

Another phase of the tax question will be overall revision. There is considerable interest in learning, in the forthcoming presidential messages, whether and how far the Administration will commit itself to the overall revision idea. Revision of the revenue laws would involve some reduction in tax revenues. Unless the Congress is unable to force enactment of the personal income tax reduction over White House opposition, there will be no revenues available for general tax reduction.

* * *

Overall revision may offer prospects for ending "double taxation" of corporation income, reduction or abolition of some of the excise taxes such as those on transportation and communication, and possibly even a lowering of the estate and gift taxes. Even though overall revision does not at present appear to have much chance of final enactment in 1948, it is intended to bring an overall revision bill out of House committee. This bill will appear after Congress has decided what it will do with the personal income tax cut. And the overall revision bill will offer business voters a tempting taste of what they might expect should they elect a Republican President and a GOP Congress.

* * *

Republicans are fortifying themselves on the budget with expert, outside advice. The House Ways and Means committee recently enlisted the services of about a score of private experts. These were put to work estimating prospective government revenues. These private consultants believe, it is said, that revenues for the current year will surpass $46 billion. Chalk that against whatever President Truman predicts in his budget message, which may come down the latter part of next week. Private citizens also have been again meandering around the executive departments doing some careful sleuthing about expenditures for the Appropriation Committee of the House. They are not getting as much substantive information as if the White House had allowed the Appropriations committee staff to sit in on the Budget Bureau hearings, now held secretly.

* * *

There will be many points of dispute over long-term foreign aid. The central issue probably will be the machinery for administration of European rehabilitation. Congress—and this includes a large proportion of Democrats as well as Republicans—want an independent agency of business men to handle the problem. They object to an agency dominated by the State Department and the White House. Another big row will be kicked up by the President's proposal that Congress commit itself in 1948 to a 4-year program. Sharing the spotlight will be an argument over the amount—whether it shall be a minimum of $17 billion and possibly more, as recommended by the President, or considerably less. Present sentiment indicates a sharp curtailment is likely to be made below the goals sought by the Administration.

* * *

What lies ahead in the way of inflation control legislation for 1948 now is clouded with much uncertainty. Now that the Congressional "voluntary" program for allocations has been enacted, there is even a possibility that this temporarily will be the last of "anti-inflation" legislation. Approval by the President has diminished one prospect. That was that at extensive hearings next year the Congressional majority would dissect the anatomy of inflation.

* * *

Republican leaders, at least those in the House, planned to delay the casting of the die on "anti-inflation" legislation until well into 1948. By that time they hope both to have a better idea whether the enactment of any controls is demanded by the country, and a clearer idea what those measures should be. The House bill for "voluntary" industry measure was drafted and programmed with the objective of its defeat in mind. This defeat would give the majority the breather it needed to figure out what should be done, for if the Democrats had followed through with defeating the GOP program, the majority would have felt free of blame from the public for not enacting something on inflation in the special session.

* * *

Senate majority leaders declined to go along with the House leadership program, but pressed a version of the "voluntary" program in the Senate. Whereas House Democrats initially turned down the majority proposal, Senate Democrats adopted it. When it was sent back to the House the leaders of that body naturally had to give it a vote since it would be too difficult to get across the idea they were stalling for time.

Despite this enactment, further legislation on the subject of inflation control will be agitated. Something also will be enacted, should the responsible leadership feel that it becomes a political necessity in 1948.

* * *

Besides its main subjects, the Congress also must make up its mind about continuing, dropping, or modifying a number of existing temporary statutes. One of these continues the Reconstruction Finance Corporation only until next June 30. Further continuation of RFC, albeit with further strings to its lending powers, is now indicated. The life of the Commodity Credit Corporation also expires June 30. It also is likely to be continued.

* * *

Leaders have suggested that rent control, which also expires, will be continued in some form next spring. Congress is studying modification of the government's control of farming. Members are not hopeful of being able to work out a revision of those laws in time for enactment in 1948. Unless a revision is made, the farm commodity price supports enacted during the war probably will be prolonged for another year or so. Rubber controls also expire in three months. They also may be continued in the absence of a program for turning the synthetic plants to private industry.

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In view of the fact that the Federal Housing Administration's Title VI, providing for housing mortgage insurance at "necessary current cost" rather than appraised values, expires March 31, Congress must consider this subject also. Sentiment within the Administration leans slightly to tightening up the basis of this loan insurance, but without concrete proposals as yet. Still another of the expiring pieces of legislation is the Reciprocal Trade Agreements Act, which ends June 30.

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Four important subjects will be agitated with action contingent upon there being time for consideration and the reaching of a meeting of minds on the subjects. One of these is universal military training, not yet favored to win approval. A special study is being made of the possibility of extending the scope of the social security laws and revising the basis of contributions. Both pro and anti-labor amendments to the Taft-Hartley act will be agitated with the present outlok against modifications in either direction.

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Many other important proposals will reach for a place in the legislative sun. Among these are the pending Anglo-American oil agreement, the St. Lawrence seaway agreement with Canada, a proposal to vest control of tidelands oil in the states, the Administration program for military cooperation with Latin America, and statehood for Hawaii.

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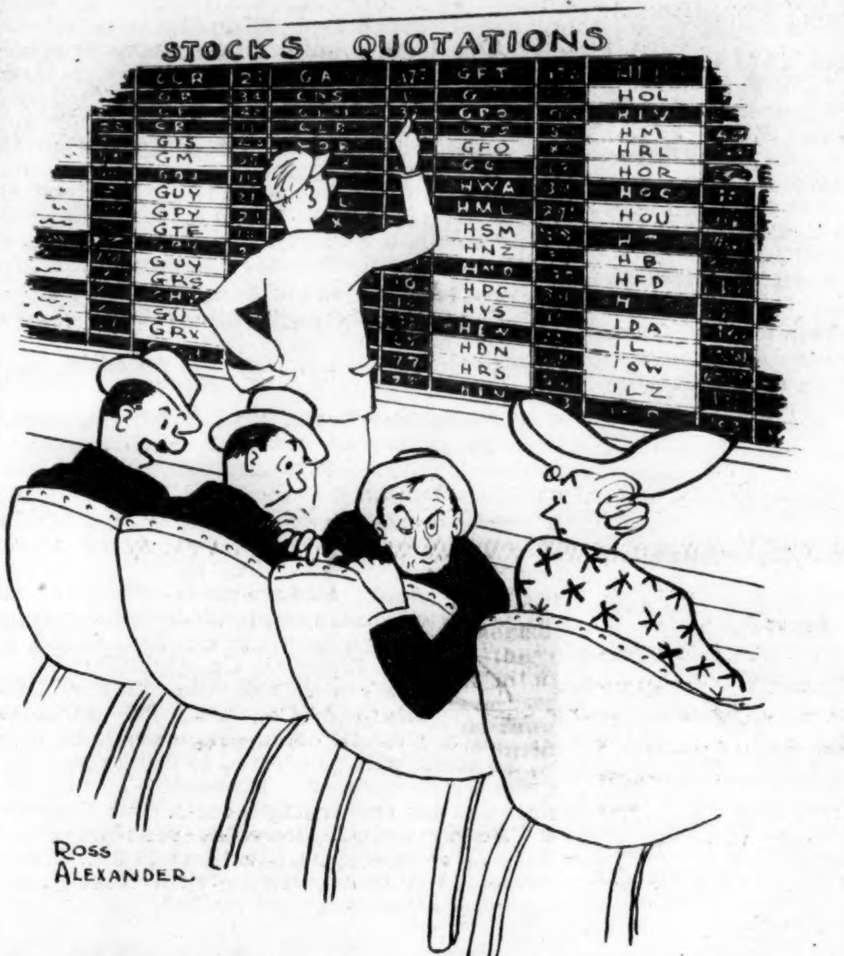
There will also be a great deal of talk about a host of proposals which are rated as possible votecatchers. These include the Taft-Wagner-Ellender housing bill, an anti-lynching bill, an anti-poll tax bill, a Federal fair employment practices commission, Federal aid for education, Federal assistance to formation of health insurance programs, and an increase in minimum wages to 65-70 cents an hour. One, two, or three of such things may pass.

BUSINESS BUZZ



"THIS BORES ELLISON, HE DOES ALL HIS STUFF OVER-THE-COUNTER."